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US FINANCE
Time Warner's untimely issue?
Page 19

World News

UN adopts tough line on sanctions against Iraq

Sanctions must be maintained against Iraq as long as President Saddam Hussein fails to comply fully with United Nations ceasefire terms, the Security Council agreed.

During the first full-scale review of the situation 60 days after the truce ending the Gulf war went into effect, western members of the council voiced concern that Iraqi forces might be preparing an offensive against Shia Moslem civilians who have sought refuge in the south of the country.

Tehran radio said that 100,000 Iraqi troops were preparing an all-out offensive against hundreds of thousands of Shia refugees. Page 5

Mubarak warns Shamir
Egypt's president Hosni Mubarak accused Israel's prime minister Yitzhak Shamir of undermining current Middle East peace efforts and described his attitude as "shocking". Page 5

Major in Europe move
British prime minister John Major confirmed that he expected to sign a compromise deal on a single European currency, but offered the anti-Federalist wing of his party some tough words on the pace of integration. Page 6; EC legal stakes, Page 4

'Death blow' to apartheid
The South African government presented a bill which it said would deal a "death blow" to apartheid by repealing the Population Registration Act, the last remaining pillar of apartheid. Buthelezi denies arms allegations, Page 5

Civilians shot dead
Indian security forces shot dead 17 civilians in central Srinagar soon after an attack by secessionist militants, witnesses said. Indian election resumes, Page 5

US-Soviet nuclear talks
The White House said there was little chance of reaching a US-Soviet pact to cut long-range nuclear arsenals before midsummer, but officials insist there is no link between those talks and Mikhail Gorbachev's appeals for economic aid. Moscow pressed to build private sector economy, Page 18

No cut in UK rates
The Bank of England quashed market hopes of an early cut in UK interest rates even though official figures showed a drop in the rate of underlying inflation. Page 18

Call for special powers
Poland's president Lech Walesa has called on parliament to give the government special legislative powers for a year to "regulate economic matters". Page 4

Spanish targets bombed
Bombs rocked Spanish targets in the northern Italian cities of Milan and Bologna, injuring four policemen and causing heavy damage.

Volcano warning
Mount Unzen in southern Japan spewed out more scorching volcanic gases, ashes and rocks, and scientists warned the mountain might be building up for a gigantic explosion.

French air strike
Air travellers in Europe face cancellations and delays today because of a 24-hour wage strike by French air traffic controllers. TWA staff in Heathrow strike threat, Page 7

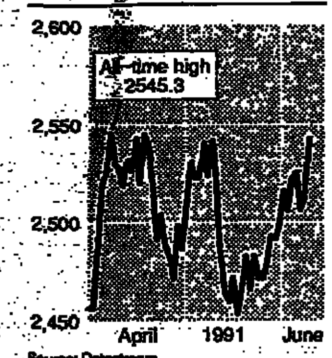
Work of art 'too ugly'
The Dutch parliament told an Italian-Greek artist to take back his modern sculpture celebrating democracy because it was too ugly. A majority of members of parliament decided that Ianis Kounelis' cast iron edifice topped with a pile of coal failed dismally as a work of art.

Business Summary

European stocks hit new highs for year

EUROPEAN STOCKS hit new highs for the year, helped by Wall Street's firm opening. In Paris, foreign buying also helped push up the CAC 40 index by 28.56 to a new 1991 high of 1,874.81. Frankfurt also reached 1991 highs, with the DAX closing 10.98 stronger at 1,715.86.

FT-SE 100 Index



Source: Datastream

London stocks neared record levels, gaining 30.7 points to a FT-SE 100 share index close of 2542.6. Shares were boosted by persistent hopes of an early cut in UK base rates – a prospect dampened by the Bank of England. Bourses, Page 42; London stocks, Page 31; Lex, Page 18; Hopes of early UK rate cut dashed, Page 18

TATE & LYLE of the UK, world's biggest sweeteners group, looks set to modify its hostile A$325m ($249m) bid for Bundaberg Sugar of Australia after the country's foreign investment authorities approved the offer. Page 18; Institutional battle ahead, Page 29

LVMH Moët Hennessy Louis Vuitton, French luxury goods maker, said it would buy up to 23.4m shares in UK drinks group Guinness to restore its stake to 24 per cent, the level agreed in their cross-holding arrangement. Page 27; Lex, Page 18

VOLVO, Swedish carmaker, launched a new range of big family cars – the result of a SKr16bn ($2.5bn) investment. Page 19

NIPPON Credit Bank of Japan is setting up a leasing company in China in partnership with Chinese and South Korean financial concerns. Page 2

TELECOM Corporation of New Zealand beat its forecast with annual profits of NZ$332m ($195m). The company, owned by Ameritech and Bell Atlantic, was poised to release details of its public flotation. Page 23

WINTERTHUR, Swiss insurance group, saw net earnings drop 9.5 per cent last year to SFr236.6m ($157m) but expects profits to grow again in 1991. Page 20

MEXICO has sold the first of 18 state banks to be privatised. A Mexican financial group paid $203.7m for Multibanco Mercantil. Page 24

IMRY Group, taken private at the height of the property boom in a highly leveraged £314m deal, agreed a restructuring package. Page 19

GLAXO HOLDINGS, Britain's biggest pharmaceuticals group, is poised to sell a penicillin plan in northern England to Taiwan's China Synthetic Rubber Company. Page 18

FYFFES, Irish-based fruit importer, is launching a rights issue aimed at raising I£60m ($90.9m) for acquisitions. Page 26; Lex, Page 18

SD-Scicon, independent UK computer services company fighting a bid from Cray Electronics, received a 45p a share all cash counter-offer from General Motors subsidiary Electronic Data Systems, valuing SD-Scicon at £116m ($197.2m) Page 19; Lex, Page 18

Bundesbank warns over speed of move to single currency

By David Marsh in Frankfurt

GERMANY further toughened its stance on European monetary union yesterday as Mr Hans Tietmeyer, vice-president designate of the Bundesbank, issued an uncompromising call against premature moves to abandon sovereignty over the D-Mark.

Germany needed to maintain "manoeuvring room" and an "independent" policy on the D-Mark at least for several years because of the "difficult situation" after German unity, Mr Tietmeyer told an economic seminar in Frankfurt.

Although more outspoken than officials in Bonn, Mr Tietmeyer's views are broadly in line with the position taken by Mr Helmut Kohl, the German chancellor, and Mr Theo Waigel, the finance minister.

At present director for international monetary affairs at the central bank, Mr Tietmeyer is emerging as the country's pivotal figure over Emu negotiations in the wake of the resignation of Mr Karl Otto Pöhl, the Bundesbank president. Mr Tietmeyer takes over as deputy to Mr Helmut Schlesinger when Mr Pöhl steps down at the end of next month.

Mr Tietmeyer warned against "political pressures" from EC partners trying to push Germany into early decisions on a single European currency. He criticised British and French refusal so far to make their central banks independent – although he did not mention France by name.

He said the problems of restructuring the east German economy, partly exemplified by the German trade deficit in April, increased the Bundesbank's responsibilities to maintain the D-Mark as the strong "anchor" in Europe.

He said he remained in favour of European economic integration. But he warned that Germany would, through a move to Emu, "lose a lot, namely one of the most successful and best monetary constitutions in the world".

By spelling out what Germany would lose through Emu, Mr Tietmeyer yesterday breached an unwritten taboo among German politicians and officials, who normally talk of monetary union in terms of what Europe would gain.

Although Mr Pöhl and Mr Tietmeyer agree on the basic stakes involved in Emu, Mr Tietmeyer's outspoken public comments underline the fact that the central bank is likely to become even less conciliatory under the new leadership.

Emu involved a transfer of monetary sovereignty towards Europe, Mr Tietmeyer said. By contrast, under German monetary union last year, the Bundesbank extended its sovereignty to the territory of the former East Germany.

In another departure from usual rhetoric, he said that "German unity should not slow down the European unity process. But it should also not speed up the tempo."

Taking issue with arguments sometimes heard in France, he said it was "problematic" for other countries to urge German support from "ambitious currency projects" in return for their help in securing German reunification.

Mr Tietmeyer also said that formation of a common pool of capital in a united currency area would enable countries with high budget deficits to finance shortfalls free of interest rate and currency risks.

Major to compromise, Page 6

Slower Japanese growth raises rate cut speculation

By Stefan Wagstyl in Tokyo

THE JAPANESE financial authorities yesterday welcomed indications that the country's economic growth was starting to slow, a trend which should allow them greater scope in interest rate policy.

With growth still at a high level, however, the signals were that an early and substantial cut in rates may not occur. This in turn could stem a decline in the yen, which has weakened against the dollar recently.

Officials have been concerned that the yen's downward drift might increase the risk of inflation. It could also fuel exports, leading to renewed tension with the US and Europe over trade imbalances.

An influential survey published yesterday by the Bank of Japan showed that domestic business confidence had declined slightly since the end of the Gulf war, although it remained high.

The findings of the quarterly economic report were echoed in a speech delivered yesterday by Mr Yasushi Mieno, the central bank governor, who said the recent deceleration in growth was a positive development.

He added that the Bank of Japan would continue to monitor the effects of past monetary policy – suggesting that he saw no reason to cut interest rates in the immediate future.

Earlier yesterday, Mr Ryutaro Hashimoto, the finance minister, said the economy remained strong but was slowing. Mr Hashimoto, who like Mr Mieno was addressing the annual meeting of the Japan Bankers' Federation, went on to note that prices had held generally stable but that the future trend of inflation required vigilance.

In London trading the yen closed at 141.1, a fall of 0.8 against the dollar.

The Tokyo stock market ended modestly firmer. It had declined steadily in recent weeks as investors' hopes of an imminent relaxation in monetary policy were undermined by continuing evidence of strong growth in the economy. Yesterday the Nikkei average of 225 leading shares rose 64.21 to 24,662.59.

Mr Kim Schoenholtz, an economist in Tokyo with Salomon Brothers, the US investment bank, said the Bank of Japan report gave the central bank considerable leeway in deciding when to cut rates.

Mr Takayuki Tanaka, an economist with Long-Term Credit Bank, said the Official Discount Rate might be cut in the next month or two – but only by half a point.

The central bank survey showed that the index of confidence among manufacturing companies fell to 36 from 39 at the time of the last survey in February.

Small and medium-sized companies reported a somewhat greater decline in confidence, because they are more exposed than big groups to the twin pressures of high interest rates and labour shortages. For small and medium-sized manufacturers, the index fell to 25 from 29, and for non-manufacturers to 23 from 25.

Companies also increased their capital spending plans since the last survey. Large groups now plan to raise capital spending in the financial year beginning April by 7.1 per cent, compared with 1.1 per cent at the time of the February survey. Small and medium-sized companies forecast a 6.3 per cent decline – a sharp improvement on the 14.9 per cent cut predicted in February.

The report showed that concern about shortages of labour and credit has eased very slightly since February, a sign of economic slowdown. But the differences were so small that central bank officials warned against exaggerating their importance.

Bush bullish over US economy

By Peter Riddell, US Editor, in Washington

PRESIDENT Bush is "bullish" about prospects for the US economy, he told businessmen yesterday. While some sectors were still sluggish, on the whole a turnround "appears to be in the making," he added.

There was reason to be optimistic, he said. "This recession has lasted perhaps longer than we would have thought. It hasn't been as deep as many had predicted. But I think things are looking much more promising."

Mr Bush was speaking as the US reported its first quarterly current account surplus for nearly nine years. The surplus of $10.2bn for the first quarter followed a deficit of $23.4bn in the previous three months. But it is exceptional, as a result of $22.7bn in contributions from foreign governments to the US costs of the Gulf war. Foreign countries have pledged a total $53.5bn to finance the US-led war that ousted Iraq from Kuwait.

Even ignoring that item, the US trade position has improved because of a strong export performance and the impact of the recession on imports. The US's merchandise trade deficit was $18.4bn in the January-March quarter, down from $27.7bn the previous quarter.

But few economists expect the US to become a creditor nation any time soon, faced with a huge import bill for petroleum products and heavy imports of manufactured goods, especially from Japan.

They expect the trade gap to resume its upward climb as the economy improves, since that is likely to mean businesses and consumers will buy more foreign-made goods.

Mr Bush noted that the May labour market report had shown more than a half of all industries had added to their payrolls last month. Industrial production has been rising, while the index of leading economic indicators had increased for three months. While not wanting to sound "euphoric because some people are still hurting in this country," he argued "things are beginning to move forward."

Editorial comment, Page 16
Bank reform law, Page 3

Former Soviet premier Nikolai Ryzhkov feels the strain during campaigning for Russia's presidential elections

Russians vote their way into history

By John Lloyd and Leyla Boulton in Moscow

THE Russian millions who vote today for the president of their republic might be forgiven for failing to appreciate the historic moment of the occasion.

The campaign itself has been short on razzle. Only Mr Boris Yeltsin, leader of the Russian parliament and the front runner, has stirred excitement and large crowds.

However, even he has not done much of that, for he has said he is not really campaigning, merely doing his business as parliamentary leader which has happened to take him round a number of large Russian cities.

For Mr Vadim Bakatin, the former interior minister, and Mr Nikolai Ryzhkov, the former prime minister, a couple of thousand is a big crowd and to have received polite applause is to have done well.

Only Mr Yeltsin and Mr Ryzhkov have the use of rented aircraft; the others must submit themselves to the vagaries of the state airline Aeroflot – which has meant a number of soapbox appearances in airport lounges.

As in the west, television has carried much of the debate.

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Poland asks for debt write-off in pollution control plan

By Christopher Bobinski in Warsaw

POLAND yesterday proposed to establish the world's largest debt-for-nature exchange scheme, under which 10 per cent of its debts to western governments would take the form of a domestic fund aimed at combating pollution.

Should all 16 of the governments – which are members of the Paris Club, a grouping of western creditor governments – agree to the debt swap, then the fund would have an estimated $3.1bn to spend over 20 years.

The fund's activities would be internationally monitored.

The Paris Club agreed in April, subject to conditions relating to Poland's economic performance, eventually to halve its $32bn portion of Poland's total $45bn of foreign debt.

For all the hard currency debt involved in the swap, Poland would undertake to set up and develop environmentally beneficial schemes funded with zlotys. The money would be spent in Poland on projects to reduce acid rain, global warming and emission of pollutants into the Baltic Sea.

Mr Jan Krzysztof Bielecki, the Polish premier, yesterday told ambassadors of the Paris Club countries that their governments would be represented collectively on the fund's management.

There would also be an international advisory panel and the fund would be audited "by an international company," he said.

The present proposal is the largest debt-for-nature swap to date.

It follows a recent plan for the Inter-American Development Bank to buy $100m of Mexico's debt in the secondary market and use the funds to plant trees around Mexico City.

Coopers and Lybrand, the accounting firm, has already been retained by the Polish government to advise on the programme.

Norway is to host an international conference on the project on July 1 and the Scandinavians are expected to back the initiative.

The US has also approved the idea as has France.

"Germany has not said no", Mr Bielecki said yesterday.

Poland presently spends some Zl10,000bn ($873.8m) a year on reducing environmental pollution.

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Can Zimbabwe repay its debts by economic improvement?

New credit terms have put Zimbabwe in a position to exploit its natural strengths and resources, many analysts believe. But Robert Mugabe's economic track record is inconsistent and misgivings persist
Page 5

MARKETS

STERLING
New York lunchtime:
$1.662
London:
$1.662 (1.6695)
DM2.945 (2.955)
FFr9.9975 (10.0075)
SFr2.515 (2.525)
Y234.5 (236.95)
£ index 90.6 (90.8)

GOLD
New York: Comex Aug
$ (376.6)
London:
$371.25 (372.95)

N SEA OIL (Argus)
Brent Jul
$ (18.275)

Chief price changes yesterday: Page 19

DOLLAR
New York lunchtime:
DM1.7715
FFr6.0065
SFr1.5135
Y141.1
London:
DM1.7725 (1.77)
FFr6.015 (5.9925)
SFr1.5135 (1.512)
Y141.1 (141.9)
$ index 67.6 (67.7)
Tokyo close: Y141.35

US lunchtime rates
Fed Funds $5\frac{11}{32}$
3-mo Treasury Bills:
yield: 5.744%
Long Bond:
$96\frac{7}{32}$
yield: 8.488%

STOCK INDICES
FT-SE 100:
2,542.6 (+30.7)
FT Ordinary:
1,991.1 (+26.7)
FT-A All-Share:
1,220.12 (+1.1%)
New York: lunchtime
DJ Ind. Av.
2,991.5 (+16.1)
S&P Comp
380.86 (+2.29)
Tokyo: Nikkei
24,662.59 (+64.21)

LONDON MONEY
3-month interbank:
$11\frac{1}{4}$% ($11\frac{1}{8}$)
Liffe long gilt future:
Sep $90\frac{1}{4}$ (same)

WORLD TRADE NEWS

The European aircraft consortium plans to complete its range with a product at the top end of the market

Airbus steps up challenge to Boeing over large airliners

By Paul Betts, Aerospace Correspondent, in Paris

AIRBUS Industrie, the European aircraft manufacturing consortium, is to start talks in September with a few airlines operating large fleets of Boeing 747 aircraft to define their requirements for jumbo airliners seating more than 600 passengers.

The discussions will mark the latest stage in Airbus efforts to challenge Boeing's dominance of the large airliner market. Mr Stuart Iddles, the European aircraft group's senior vice-president for commercial affairs, who was addressing in Paris yesterday a Financial Times Aerospace Conference, said the initial discussions on a new Airbus jumbo would involve about half a dozen airlines.

Airbus and three of its partners, including British Aerospace, Aérospatiale of France, and Deutsche Aerospace, are also expected to start drawing up specific designs for the development of a new large capacity airliner next year, Mr Iddles said. The separate projects from this four-party design competition would then be analysed by the consortium members to enable Airbus to move ahead with the final definition of a new jumbo aircraft.

Aérospatiale's Henri Martre: orders will remain weak

The new large capacity aircraft would help complete the Airbus aircraft family range with a product at the top end of the commercial aircraft market currently dominated by Boeing, the world's leading manufacturer of commercial jets. Airbus does not intend to compete against the current Boeing 747 but wants to develop a new aircraft for the 747 replacement market early next century.

The decision of Airbus to enter the large capacity airliner market appears to have worried Boeing and is seen by many European aerospace executives as a main reason for the renewed US onslaught against government subsidies for Airbus programmes.

Mr Johann Schäffler, deputy chairman of Deutsche Aerospace, yesterday said he believed the latest US threats to file a complaint against Airbus subsidies in the General Agreement on Tariffs and Trade reflected American, and especially Boeing, anxieties over the Airbus jumbo plan.

To pre-empt further US criticisms on Airbus subsidies, Mr Iddles suggested that Airbus could finance from its own resources the $4bn-$5bn development programme of a new jumbo. "Financing it from internal sources would require some 5 per cent of turnover," he said, adding that this was "not insuperable".

Airbus expects annual turnover to rise to around $15bn by the end of the decade. The development of a jumbo would be spread over five years requiring about $800m a year in annual funding.

Mr Iddles confirmed in his address that Airbus had moved into the black last year "and intends to stay that way in this very long term and cyclical business".

He also said Airbus partners had repaid last year about $500m to their respective governments in accordance with their obligations to repay refundable loans advanced for the development of aircraft programmes. The partners expect to repay about $900m this year, he added.

The next significant investment by Airbus would be the development of the new jumbo aircraft. Should Airbus decide to launch a smaller 130-seat version of its A320 twin-engined jet – the A319 – Mr Iddles said this would also be financed through the commercial markets.

Airbus for the first time turned to the commercial markets to finance the development of the A321, the stretched version of the A320. The consortium has estimated the cost of developing the smaller A319 130-seater version of the A320 at around $400m, or the equivalent of the development costs of the A321 stretched version of the narrow bodied twin-engined aircraft.

Although Airbus was considering developing a 130-seat aircraft, Mr Schäffler said Deutsche Aerospace together with Aérospatiale and Alenia of Italy were still hoping to launch a new family of 80- to 130-seat regional jetliners next year. He estimated the potential of the worldwide regional jet market over the next 20 years at around $96bn, involving deliveries of about 3,550 aircraft.

FT CONFERENCE
Aerospace

However, competition in this market is intense, with a host of rival products and new derivative projects. These include the Canadair regional jet, the Fokker 100, the Boeing 737-500, the McDonnell Douglas MD87, and the BAe 146.

While there has not been a significant drop in the rate of new aircraft shipments, Mr Iddles conceded there had been a dramatic slackening of new orders from airlines which was expected to last for the next two to three years. However, he emphasised that manufacturers had a record backlog of firm orders.

Both Airbus and Boeing are expected to announce new orders at the Paris Air Show, which opens tomorrow. There was speculation yesterday that Airbus was about to clinch a significant order with a new US airline customer.

But Mr Henri Martre, the Aérospatiale chairman, also warned that the rate of orders would remain weak because of the heavy commitments of airlines and the uncertainties facing the airline industry hit by the twin effects of the Gulf crisis and economic recession. Mr Martre said airlines placed net orders for only 13 airliners during the first quarter of this year compared with 255 airliners in the same period last year.

However, congestion in the skies and at airports remained "the single greatest threat to continued airline growth", cautioned Mr Richard Albrecht, executive vice-president of Boeing Commercial Airplane group. "Aircraft delay is already costing the industry and the travelling public over $9bn a year in the US and Europe alone," he told the conference.

US herbicide supplier to build $100m plant in eastern France

By William Dawkins in Paris

DOWELANCO, the US supplier of crop protection chemicals and seeds, is to build a $100m (£57.8m) plant in eastern France.

The plant at Drusenheim, near Strasbourg, will start making herbicide ingredients at the end of next year and reach full output by the mid-1990s, by when it should have 120 staff. DowElanco already has 800 European staff producing 28 per cent of its world sales and wants to expand there, as part of its strategy of moving production nearer to customers.

Most leading chemical companies manufacture the product for 95 per of their European sales in Europe, while DowElanco has local production for less than 40 per cent of its European sales, mostly from its plants in Britain, Germany, France, the Netherlands and Italy. Most of the balance is imported from the US. "As this is one of the largest markets in the world for plant protection products, our objective is to ensure we can meet existing and future demands," said Mr Charles Fischer, European vice-president for the group.

Last year DowElanco made $420m of its $1.5bn sales in Europe. The group, the world's seventh largest agrichemicals producer, was formed in 1989 from the merger of the crop protection businesses of Dow Chemical of the US and Eli Lilly, the US pharmaceuticals group.

DowElanco chose Drusenheim because it lies at the centre of the European market, officials said. No French regional aid was on offer. Assistance would have been available in the nearby former steelmaking region of Lorraine, but this was unsuitable for DowElanco's needs.

OECD export credit rates

THE Organisation for Economic Co-operation and Development announced new minimum interest rates for officially-supported export credits (April rates in brackets):

D-MARK 9.52 per cent (9.69);
FRENCH FRANC 10.17 (10.26);
GUILDER 9.65 (9.75);
ITALIAN LIRA 11.99 (12.34);
YEN 7.50 (same);
PESETA 12.86 (13.53);
STERLING 11.35 (11.28);
SWISS FRANC for credits of less than eight years 8.30 (same); for credits of more than eight years 8.55 (same);
US DOLLAR for credits of up to five years 8.60 (same); for credits of over five years 9.00 (same).

These rates are published monthly by the Financial Times, normally around the middle of each month. They apply to all export credits. However, on those to middle-income and poor developing countries the OECD matrix rate can be used if lower.

This is a standard set of rates reviewed twice a year, in January and July.

Japanese ties with China strengthen

By Stefan Wagstyl in Tokyo and John Ridding in Seoul

NIPPON Credit Bank, a leading Japanese bank, is to establish a leasing company in China in partnership with Chinese and South Korean financial organisations.

The venture highlights moves by Japan and South Korea to deepen business ties with China. Japanese companies had been cautious about opportunities in China since the Tiananmen Square incident of June 1989. South Korean groups had avoided significant contact until a thawing of relations over the last year which led to the establishment this year of bilateral trade offices in Beijing and Seoul.

Agreement on the leasing company, to be called International Far Eastern Leasing, was signed in Beijing last week. It will be capitalised at $10m (£5.7m) and be based in the industrial city of Shenyang, Liaoning province, in north-east China. It will channel funds from Japan and South Korea for investment in plant and equipment in China.

Nippon Credit Bank is putting up 30 per cent of the capital, with a further 10 per cent coming from its affiliate, Crown Leasing Corporation. The two Chinese partners are the People's Construction Bank of China with a 30 per cent stake, and the China National Chemicals Import and Export Corporation with 20 per cent. Korea Industrial Leasing, an affiliate of Korea Development Bank, a state-owned bank, will put up the remaining 10 per cent.

Korea Industrial Leasing said the joint venture would provide financing for the import of equipment by manufacturing companies. It said the Chinese leasing market had very good prospects and that one purpose was to provide financing for Korean companies operating in China or seeking to manufacture there.

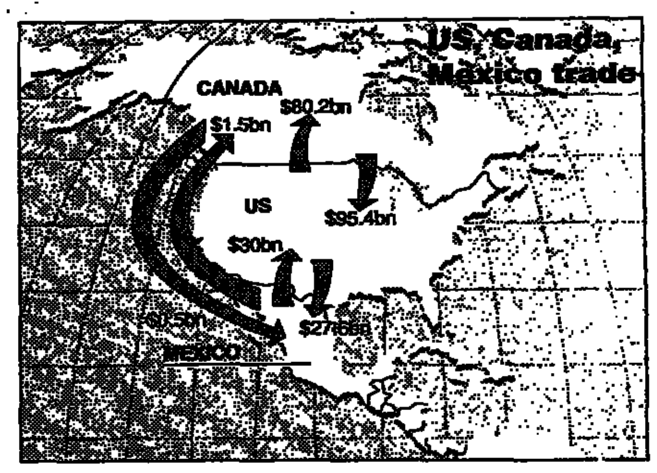
Work starts on free zone from Arctic to Acapulco

By Bernard Simon in Toronto

TRADE ministers from the US, Canada and Mexico begin much-heralded negotiations in Toronto today on a North American free trade agreement (Nafta).

The choice of Canada's business and financial capital as the starting point for the talks is not without significance.

Of the three, Canada runs the greatest political and economic risk in the push to create an Arctic-to-Acapulco free trade zone.



With most of the attention focused on the US and Mexico, Canadian negotiators are well aware that, unless they constantly make their presence felt during the talks, they may be presented at the end with a choice of like-it or lump-it.

Although there will inevitably be some bilateral meetings, Canada will probably try to ensure that most of the work takes place in groups where all three countries are represented. Among the topics likely to be allocated to specific groups are rules of origin, market access, dispute settlement and investment restrictions.

Canada's two-way trade with Mexico is still small. Although Canadian businesses are eager to forge closer trade and investment links with a market which they recognise may be one of the fastest-growing in the world over the next decade or two, they acknowledge that the immediate benefits of an open Mexican market will be modest.

Ottawa's main interest in the negotiations will be to protect – and, if possible, build on – the gains it made in the bilateral free trade pact with Washington which came into force in January 1989.

As Mr John Weekes, Canada's chief negotiator in the Nafta talks, put it in a speech recently, Ottawa's participation "will demonstrate to investors that investing in this country will guarantee secure access to all three markets".

The Canada-US free trade agreement (Custa, as it is now known) will serve as a useful framework for many of the issues to be raised in the Nafta talks. For instance, its innovative system of bi-national panels to review trade disputes is likely to form the basis of the Nafta dispute settlement mechanism.

Ottawa also plans to push for some changes in Custa as part of the trilateral talks. It will press Washington to extend the provisions on government procurement to more US agencies, and will seek wider powers for Canadian banks south of the border.

The Canadians hope that with backing from the Mexicans on issues such as these, they may be able to prise more out of Washington than was possible during the bilateral negotiations in 1987-88.

The risk for Ottawa is that the Americans will probably also want to re-open parts of Custa. While the bilateral agreement will abolish all customs duties by 1998 and nibbles at some non-tariff barriers, several major trade irritants between the two countries remain intact.

Canada's broadcasting, publishing and other cultural industries continue to be protected from foreign (especially US) competition by ownership curbs, tax advantages and subsidies.

Ottawa still frowns on foreigners buying healthy energy companies. Although Custa significantly relaxes scrutiny of US investments, those over C$150m ($76.9m) will remain subject to review, even after full implementation of the agreement.

Canada's ability to offer concessions in the negotiations will be constrained however, by political considerations.

The next general election must be held before the end of 1993 and free trade has already become one of the beacons by which Canadians judge the seven-year-old Conservative government of Mr Brian Mulroney, the prime minister.

The business community generally welcomes free trade with the US and Mexico as a painful but essential remedy to the low productivity and high costs which bedevil Canadian industry after years of mollycoddling.

But the Tory government has had the misfortune that the first stages of bringing down trade barriers with the US have coincided with a recession which has struck hardest at manufacturing industry in Quebec and Ontario.

Trade unions and opposition parties have made the free trade agreement the whipping boy for almost every plant closure and redundancy.

One consolation for Mr Mulroney is that the especially nettlesome issues of subsidies, dumping and countervailing duties are unlikely to be tackled seriously during the trilateral talks.

Most of the recent trade disputes between the US and Canada revolve around these three problems. But they were put to one side in the Custa negotiations, with the idea of making them the subject of future discussions.

Rather than searching for a regional solution however, Canada is putting its faith in the Uruguay Round of multilateral negotiations under the General Agreement on Tariffs and Trade to deal with these and some other trade-distorting practices.

According to Mr Weekes, who was previously Canada's chief Gatt negotiator, "a successful Uruguay Round will help us make a better North American free trade agreement".

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Sharp criticism over handling of S&L rescue

By Peter Riddell, US Editor, in Washington

THE US federal agency handling the rescue of the savings and loan industry, the largest in history, has been sharply criticised by the General Accounting Office (GAO), a congressional watchdog, for lacking adequate controls over the billions it spends.

Mr Charles Bowsher, the comptroller general, in charge of the GAO, yesterday told a congressional committee that the audit of the Resolution Trust Corporation would be delayed several months because financial statements for 1990 were not available until mid-May and because of uncertainties over asset values.

The GAO says the RTC head office "is still unable to track all its assets in receivership or to provide information related to the book value, estimated recovery value, date of sale, sales price, and sale gain/loss on an individual asset basis."

The report is critical of the RTC for insufficient scrutiny of contractors, including not penalising those who do not perform agreed work, and inadequate financial controls.

Anticipating such criticism, Mr Nicholas Brady, treasury secretary, has set up a working group headed by his deputy and the deputy secretary at the Housing and Urban Development Department to "investigate and co-ordinate" the RTC audit.

The GAO's assessment has already stirred congressional criticism of the RTC. Congressman Henry Gonzalez, the maverick chairman of the House banking committee, has described the RTC as "an unguided missile headed for certain disaster".

Mr Bowsher has also warned that $50bn-$75bn is the minimum additional funding required for the RTC, in addition to $80bn already approved.

Because of the large amount of property already held by the RTC, the over-built property market, economic weaknesses and the RTC's aggressive discounting policy on asset disposals, the GAO says "the best cost estimates for resolving failed thrifts could be significantly understated and unexpected losses on asset sales could dramatically increase RTC's funding needs".

President acts on bank reform law

By Peter Riddell

PRESIDENT George Bush yesterday met congressional leaders to press for comprehensive bank reform legislation in face of strong criticism of the plan by a key House committee chairman.

The full House Banking committee is next week due to consider far-reaching proposals approved by its financial institutions sub-committee. But Congressman John Dingell, chairman of the House Energy and Commerce committee, which has jurisdiction over securities and insurance issues, has said the plan could have "profound negative effects on our economy." Mr Dingell was mainly responsible for blocking proposals in 1988 similar to the current ones ending the barrier between investment and commercial banking.

While Mr Bush was telling the congressional leaders he wanted legislation approved quickly, Mr Dingell has challenged the desire of Mr Tom Foley, the House Speaker, to have the legislation voted on by the full House by the August recess.

In a letter to Mr Foley, Mr Dingell has said his committee will not have sufficient time to consider the bill. "This complex and dangerous proposal should not be railroaded through. Though the benefits are slight and hypothetical, the dangers are substantial." He challenged the administration's argument that banks should be given new powers to link with securities, property and insurance businesses.

The administration wants early enactment because the bill provides money to recapitalise the fund which insures bank deposits, fast being depleted by a run of bank failures. One possibility, so far resisted by the Treasury, is that this might be separated from the broader reform package.

Mr William Seidman, chairman of the Federal Deposit Insurance Corporation, which manages the fund, said yesterday the likely number of bank failures this year might be nearer 440, costing more than $23bn (£13.2bn), than 340. In the first quarter of 1991, nearly 90 per cent of banks earned profits, though overall earnings fell 8.8 per cent to $4.7bn, against the same period a year ago. Problems at the loss-making 10 per cent stayed serious, especially with property loans.

Foreign banks 'may reduce US lending'

By Peter Riddell

FOREIGN banks may cut lending to American businesses and local governments as a result of US Treasury proposals, Mr Alan Greenspan, chairman of the Federal Reserve, warned yesterday.

The Treasury has proposed, as part of a comprehensive bank reform plan, that foreign banks wishing to engage in newly authorised activities, such as securities underwriting, would have to set up a separately capitalised US subsidiary, rather than use the capital of their parent.

Moreover, foreign banks wanting to expand in this way would have to conduct all their US banking business through such a subsidiary, including current US branches and agencies.

Mr Greenspan told the House Banking committee that the change to separately capitalised subsidiaries would impose additional costs without enhancing their safety or soundness. Moreover, this might discourage involvement in the US. "To the extent the proposal may cause a retreat from the commitment of foreign banks to the US market, it may reduce the availability of credit to American businesses and local governments."

These worries were disputed at the same hearing yesterday by Mr David Mulford, Treasury under-secretary for international affairs. He said the Treasury had considered the possibility of a reduction in lending but believed that some of the potential constraints could be alleviated if, for example, a subsidiary transferred loans that exceeded lending limits back to its parent. The parent could also provide additional capital and make loans itself.

At present lending limits on US branches of foreign banks are based on the consolidated capital of their parents, but the creation of subsidiaries whose capital is measured separately from the parent might, according to Mr Greenspan, "limit the extent to which foreign banks contribute to the depth and efficiency of markets in the US and continue to lend to individual borrowers."

Mr Greenspan warned that foreign banks might be induced to conduct operations in "less costly environments outside the US," while foreign authorities could enact similar curbs on US banks.

Denver, Miami to host professional baseball teams

By Patrick Harverson and Peter Berlin

AFTER SIX years and millions of dollars of campaigning Denver and Miami have been chosen to host two new US professional baseball teams, in what will be the first expansion of the country's national sport since 1977.

The two cities were chosen ahead of four rival bidders – Orlando, Tampa/St. Petersburg (both in Florida), Buffalo in New York state, and Washington DC – by an expansion committee of the National League.

Major league baseball in the US is split into two, the American and the National. The Denver and Miami teams will be competing in the National League when the 1993 season opens.

Although the committee's recommendations have to be ratified by owners of major league baseball teams in California later this week, approval of the new franchises is expected to be a formality. Denver will be the first top-flight team to play in the mountain time zone, while Miami will be the first in Florida.

Both regions represent large, untapped markets for baseball. Denver and Miami were chosen primarily because their bids had the strongest financial backing. The business group behind Miami is led by Mr Wayne Huizenga, owner of Blockbuster Entertainment, the world's biggest retail video business.

Setting up a new baseball team in the US is big business. The two new franchises will each pay a $95m expansion fee, of which the 12 existing National League clubs will get $12.33m each and the 14 American League teams $3m.

The cost of running a baseball club is high, but so are the potential rewards. Major League baseball has a four-year $1.1bn television contract with CBS and teams are free to negotiate local deals, which for franchises in large urban areas can be worth tens of millions of dollars a year.

Franchises are good long-term investments. The last time the league expanded in 1977 new franchises, including Toronto's, cost $7m. The Baltimore Orioles were sold in 1977 for $12m and in 1988 for $70m. Owner Eli Jacobs has said he is thinking of selling them this year. The estimated price tag is $120m.

BankAmerica in $6m nature deal

By Anne Dias in Washington

BANKAMERICA, the biggest west coast bank, is to donate $6m (£3.4m) of its loan portfolio to finance the largest private "debt-for-nature" swap to date – a three-year programme to assist rain forest conservation in Latin America, chiefly Mexico.

Mr Nicholas Brady, US treasury secretary, yesterday called the donation "a new way to accomplish swaps". In the past, debt-for-nature swaps have been undertaken primarily through the purchase of commercial debt by conservation organisations.

The donation is tiny in relation to Mexico's foreign debt, but Mr Brady said he hoped the BankAmerica agreement would encourage other banks to take similar steps.

The debt donation will be channelled through the World Wildlife Fund (WWF) and Conservation International, the environmental group, which in turn will purchase external debt at a discount on the secondary market.

The Smithsonian Institution, the Washington-based organisation involved in pioneering such swaps, will receive $100,000 to act as adviser.

Conservation International will initially use $250,000 to help save Mexico's Selva Lacandona, the largest tropical rainforest in North America. The forest has shrunk by half in 50 years as a result of commercial forestry, pollution from urbanisation and poorly managed agriculture.

In another $250,000 programme, WWF will help Mexico's environment ministry support environmental education and planning and enforce environmental law in the states of Chiapas and Oaxaca.

Mr Richard Rosenberg, BankAmerica's chief executive officer, said businesses and governments must not be "numbed into inaction by the dimensions" of rainforest destruction.

"A section of the rain forest the size of a football field is destroyed every second of every day, and a species of plant or animal is lost to extinction every 24 hours," he said.

This is the 19th debt-for-nature swap since 1987, when conservation organisations first became aware of the potential for using debt reduction as a means to induce third world governments to protect wilderness areas.

Polish debt-for-nature swap, Page 4

Democrats appalled by feuding of stars

By Lionel Barber in Washington

THE DEMOCRATIC party, which is not blessed with an abundance of presidential candidates for next year's election, is watching with horror and fascination as two of its most promising national figures tear each other apart.

Governor Douglas Wilder of Virginia, the first black to be elected to run a US state, and Senator Charles Robb, one-time governor of Virginia and former President Lyndon Johnson's son-in-law, have become embroiled in a public row over allegations of eavesdropping and political sabotage.

The affair turns on allegations that Mr Robb, while governor of Virginia between 1982 and 1986, attended parties where cocaine was consumed and had an affair with a local beauty queen.

Mr Robb has consistently denied the allegations and accused Mr Wilder of promoting the stories for his own political ends. At one point, the Senator released a four-hour unedited video-tape of an interview with a network TV producer in an unsuccessful effort to kill the story.

In the latest exchanges, Mr Wilder accused Mr Robb of receiving a tape of a secretly recorded cellular telephone call made in 1988 when Mr Robb beat a black Republican to win the vacant US Senate seat in Virginia. On the tape, Mr Wilder said the Senator's political career was 'finished' because of the rumours about his private life.

Last weekend, Senator Robb's staff confirmed that he had received a Wilder tape which had been sent anonymously. The tape was kept for two-and-a-half years but was destroyed in recent weeks after some of its contents appeared in the press.

The Washington Post gave the eavesdropping story a further twist yesterday, reporting that a top Robb aide had

Governor Thomas Wilder

sought to pressure a Virginia Republican official to say the Republicans were behind an investigation of the Senator's social life in 1988. The pressure came via a threat to reveal the contents of another recorded telephone call.

Federal and Virginia state law make it a crime to record and disclose intentionally the contents of cellular telephone conversations. The Post story strengthened the impression that Senator Robb's staff may have been overzealous in seeking to contain the cocaine allegation.

Governor Wilder, who is considering running for president next year, is due to return from a trade mission to Europe today. He said that Senator Robb's admission that he had held the tape of his conversation for two-and-a-half years was "shocking".

Senator Robb, who is up for re-election in 1994, denied he was responsible for the eavesdropping and called for a meeting with Governor Wilder to clear the air.

The Virginia state Democratic party is appalled by the feuding, with local party figures issuing warnings that if it continues the Democrats risk becoming a minority party.

Soviet oil workers win 40% pay rise

By Leyla Boulton in Moscow

MR Valentin Pavlov, the Soviet prime minister, yesterday agreed to a 40 per cent pay rise for oil and gas workers who had threatened to disrupt production of the country's main hard-currency-earning export.

Mr Vasily Veryovkin, deputy chairman of the Russian Oil and Gas Workers Union, said that the increase, to be backdated to June 1, would be financed through a cut in the taxation of oil enterprises.

This pay rise is the latest example of the government's tendency to give in to pay demands and stoke inflation, rather than face industrial action and carry out a threat to prosecute strikers in key industries.

The pay rise for workers involved in the extraction of oil and gas will be gradually boosted to total 75 per cent in *the fourth quarter of this year*, Mr Veryovkin said. The oil and gas workers of Russia, Azerbaijan and the Ukraine had initially *demanded a doubling of* their pay.

Without explicitly threatening to go on strike, union members had planned to disrupt production by collectively resigning, or by observing regulations which would require shutting down leaky pipelines.

The central government has also promised to invest 500m in hard-currency roubles in the oil and gas industry to renew failing equipment. In addition, it would devote revenues from 8m tonnes of oil to new capital investment to boost productivity.

The union had initially proposed raising the domestic price of oil from its current fixed low level of Rbs70 a tonne *to Rbs180 in order to finance* the pay rise. But the government has been reluctant to do this because of the repercussions it would have for the rest of the economy, which is dependent on cheap oil.

Oil workers earn an average monthly wage of Rbs346, while gas workers are paid Rbs327 – compared to the national average of Rbs280. Since doubling or tripling the price of basic foodstuffs on April 2, the government has been deluged with double- and triple-digit pay demands.

Last month, it agreed to double *the wages of striking coal* miners on condition they increase productivity. In quick succession, the government awarded *a 60* per cent pay rise to air traffic controllers and pilots, minutes before they were due to go on strike.

This was followed by a little-publicised decision to increase the pay of rail workers. Hardly setting an example while the nation is being asked to tighten its belt, deputies of the Soviet parliament voted last week to increase their own pay from Rbs500 to Rbs800 a month.

Economy under control, says Pavlov

By John Lloyd in Moscow

THE decline in Soviet production has been stopped and "the government has the economy under its control", Mr Valentin Pavlov, the prime minister, told the Supreme Soviet in Moscow yesterday.

In a brief report on the economy, Mr Pavlov claimed that his government could stabilise production over the next two or three months. The spring sowing campaign had been relatively successful, he said, and the expected grain harvest was between 205m and 206m tonnes – down from 237m tonnes last year, but far better than recent forecasts of hunger which, Mr Pavlov said, had been made "to cause panic".

He made clear, however, that the economic crisis was still deep, that the partial stabilisation was fragile and that "all will depend on the political situation in the country".

The government had been forced to slash exports, especially of oil, in order to safeguard Soviet production, said Mr Pavlov. Oil exports had fallen by 49 per cent in the current year, oil products by 54 per cent, timber by 45 per cent and ferrous metal by 61 per cent. At the same time, imports had been cut by 45 per cent.

The Soviet Union earned 7.7bn hard currency roubles (about £7bn) from exports in the first five months of this year, and paid Rbs12.2bn for exports. Arrears for imports amounted to Rbs2.5bn. In all, foreign trade turnover dropped by about a third, though Mr Pavlov said it was now beginning to pick up.

He disclosed that only Georgia has not participated in talks on the anti-crisis measures – though he admitted that the three Baltic states could not agree to sign because the measures were not framed as a treaty between separate states.

He said that the main issue remaining in the talks on the Union treaty was a dispute on tax, with Russia and the Ukraine insisting that they should collect all taxes and pass on a set amount to the centre, while the Union government wants to retain separate taxing powers.

New proposals to lower tax rates, designed to "stimulate business growth", were debated by the deputies yesterday. Introducing the changes, Mr Victor Gubarev, a member of the Supreme Soviet's planning and budgetary commission, said "the amendments testify to the commitment of the cabinet of ministers and the USSR Supreme Soviet to radical market reform".

The new tax regulations raise the minimum income level at which tax must be paid from Rbs100 a month to Rbs160; reduces the tax rate from 13 to 12 per cent for all earnings below Rbs1000; sets the maximum supertax rate at 30 per cent; and treats all incomes equally, rather than imposing discriminatory rates of up to three times higher on entrepreneurial activity.

The darker side of the market reform was highlighted by a report on the official news agency Tass that experts expected the jobless numbers to rise to 30m in the Soviet Union within an unstated period – with 1m in Moscow alone.

BAe starts talks on export of Eurofighter

By Paul Betts in Paris

BRITISH Aerospace has started informal discussions with potential export customers for the new European Fighter Aircraft (EFA) which BAe is developing jointly with Deutsche Aerospace, Alenia of Italy and Casa of Spain.

Mr John Weston, the head of BAe's military aircraft division, yesterday said EFA export orders could double the number of aircraft currently planned for airforces in each of the EFA partner countries.

Although no formal proposals had so far been made by the EFA consortium to possible export customers, Mr Weston said that EFA was expected to turn into "an export success with interest already expressed by several responsible, non-European governments."

Defence spending cuts in Europe were not expected to affect the overall EFA programme, Mr Weston said. But he conceded that it could reduce the overall number of new fighters ordered by EFA partner countries from an original estimate of between 700-800 aircraft to around 500-650 aircraft.

With additional export orders, total EFA sales are expected to top eventually the 1,000 aircraft mark. Mr Johann Schäffler, deputy chairman of Deutsche Aerospace, said 1,000 was the minimum number of aircraft required to make the EFA programme economically viable.

Despite persisting doubts over the German government's commitment to the EFA programme, Mr Schäffler said the mood had swung increasingly in favour of German participation in the production of EFA.

"The situation was critical in Germany last autumn because of the domestic political situation," he said, adding that political attitudes towards EFA had since improved in Germany.

However, Germany, which is contributing DM5bn ($2.82bn) in the development of EFA, is *likely to reduce its overall* intake of new fighter aircraft from an original requirement of around 200-250 aircraft to *about 160 aircraft*.

The UK, which is investing £1.8bn ($3bn) as its 33 per cent share in the $4.5bn EFA development programme, is expected to require about 250 new advanced fighters.

UK wins breathing space on harmonisation of VAT

By David Buchan in Brussels

BRITAIN could have several more months to decide whether to veto EC harmonisation of indirect tax rates, under a new compromise acceptable *to all its Community partners*, European Commission officials said yesterday.

Most EC states insist on *legislation to narrow the gaps* between differing national rates of value added tax and excise taxes, so that the lifting of frontier controls by January 1, 1993, does not send shoppers stampeding into low-tax countries. The UK is alone in contesting the necessity of bringing rates together by legally binding rules, preferring to see market forces achieve this; but any single EC state can veto EC tax decisions.

The Luxembourg presidency, with UK connivance, proposed at Monday's EC finance ministers' meeting a two-part declaration. First, all 12 countries *would state that their standard* VAT rate would be no lower than 15 per cent by 1993. Then, 11 of them would commit *themselves to turning this* intention into legislation, with the UK recording its opposition in principle.

"Everyone was *happy* with this, but we did not get back to it on Monday because disagreements over excise prevented a global *package deal*," *said* a Commission official yesterday. But, in a bid to end these north-south differences over excise on tobacco and alcohol, Luxembourg is re-convening finance ministers on June 24 – the third time this month – for what Mrs Christiane Scrivener, the EC tax commissioner, is calling "the moment of truth".

Britain's moment of truth will come in four months, the EC official said, when a precise legal text on tax rates is ready to be voted on.

Hard going in EC legal stakes as single market draws near

By David Buchan

193 DOWN, 89 TO GO - that is the legislative scorecard on the European Community's barrier-flattening measures, only 18 months before the single market programme is supposed to take effect. In its latest progress report, the European Commission yesterday warned of tough going in the home stretch to end-1992.

Prominent among its complaints are that fiscal and physical barriers to the free movement of goods and people still remain; the Council of Ministers is dragging its feet on investment, shipping and road haulage services; and Italy has put barely half the EC directives on its national statute books.

Just as communist countries used to have productivity surges towards the end of their annual plan periods, so the pace of Community law-making picks up every six months, as each presidency nears an end. Thus, by the time Luxembourg relinquishes the chair to the Dutch at the end of this month, some 220 single market measures should have won approval; so it is hoped.

The Commission pats itself on the back for churning out no fewer than 282 single market measures by last year, blaming others for legislative delays.

The Strasbourg parliament, which only has real amending power on issues subject to majority votes in the Council, should have been speedier in dealing with single market legislation that (precisely because of majority voting) could have passed the Council easily.

But it is no longer the key bottleneck because many key remaining issues – tax, removal of internal frontier checks, certain company and labour market rules – require Council unanimity. Successive presidency countries are at fault, the Commission says, for cancelling several recent meetings of the general Internal Market Council.

Another black mark for governments, in the Commission's book, is their continuing failure to agree a site for a Community trademark office, as well as to ratify the Community Patent Convention.

Norway plans tax break to help banks

NORWAY'S minority Labour government has proposed tax incentives for some business profits to be invested in the country's troubled banking sector, writes Karen Fossli.

Norwegian companies can make profits from sales of fixed investments such as machinery, where the sales price is higher than the book price. Under the proposal, 40 per cent of such profits would be *exempt from tax from* 1992, while the remaining 60 per cent could be invested without tax in new bank shares from *the second half of* 1991. But such shares would have to be held for at least five years.

Mr Sigbjoern Johnsen, the finance minister, said that the proposal was meant to "make it more favourable for Norwegian companies to buy newly issued shares and stocks in the Norwegian commercial and savings banks."

Mr Per Kristian Foss, the head of the opposition Conservative party and chairman of the parliamentary finance committee, said that he expected *the new proposal to win* wide support among MPs.

But the Norwegian Association of Business and Industry *complained that the measures* were not sufficient to get the banks out of trouble and strongly urged other measures to be implemented.

The scheme contains an alternative proposal, under which up to one-half of the 60 per cent of deferred profits could be invested from 1992 in newly issued shares or primary capital certificates, and the other half in venture companies.

Norwegian companies' profits on sales of fixed investments have been untaxed in the past, but were due to attract tax under a reform drawn up earlier this year. The *tax reform* has yet to be presented to parliament.

"There is a strong need to transfer new core capital to the banks so they can better fulfil their role in society and contribute to growth and employment," Mr Johnsen said.

Norway's banks have suffered huge credit losses for nearly four years. Earlier this year the minority Labour government established a NKr5bn ($733m) bank guarantee fund for the sector.

The banks' troubles have been *exacerbated by an* uphill struggle to meet tougher capital adequacy requirements to be implemented by the Bank *for International Settlements* and the European Community from the end of 1992.

Lisbon inquiry into TV 'bias'

By Patrick Blum in Lisbon

PORTUGAL'S parliament will look into the conduct of the state-owned television networks in response to last week's *accusations of political* bias on the two channels by President Mario Soares.

The ruling Social Democratic Party (PSD), which reacted angrily to Mr Soares's attack against what he claimed was growing government interfer*ence in the media, has agreed* to the establishment of a parliamentary commission.

President Soares, a former *socialist leader, said* the *two* channels' main news and current affairs programmes were manipulated to minimise the opposition's role.

Such "abuses and irregularities were particularly serious" *with a general election due on* October 6, he said.

Opposition parties say they are often misleadingly or under-reported *while rarely* a day goes by without the prime minister, a minister or the government's press spokesman *appearing in a report.* icy.

A survey of television news coverage during May published in yesterday's Publico, a *respected independent daily* newspaper, appears to justify some criticisms.

It shows that Mr Anibal Cavaco Silva, the prime minister and PSD leader, featured in programmes 54 per cent of the time, compared with 17 per cent for Mr Jorge Sampaio, the socialist and main opposition leader.

An analysis of the coverage of parties as institutions showed the socialists with 38 per cent of broadcast time, *more than the ruling PSD with* 12 per cent. But when all political coverage was tabulated, the analysis showed the government had 265 minutes of coverage compared with 88 minutes for all other parties.

French plea for easier equity financing

By William Dawkins in Paris

BUSINESSES in France say *they are seriously short of* equity capital and over-reliant on bank debt by comparison with foreign competitors. As a result they have sent the government six tax reforms making it more attractive for businesses to turn to equity finance in place of debt in the hope that some at least may be included in next year's budget.

The proposals, by the Patronat employers' federation, include lighter tax treatment for dividend payments, to narrow the gap with the lower tax rate on profits used for interest payments.

The gap between the two is wider than for France's biggest competitors and as such encourages businesses to take on too much debt, says the Patronat. It is also urging tax incentives for equity raising and better tax breaks for private investors.

French companies increased their use of equity capital in the late 1980s, but still use a lower proportion of equity finance in their total funding (35 per cent) than competitors in Germany, Britain and Japan, says a Patronat study.

"If we don't take action to improve the trend, there will be casualties," warns Mr Ernest-Antoine Seillière, chairman of the Patronat's economics commission. The downturn in the economy has caused business collapses to increase by 15 per cent to 11,397 in the first quarter of this year, according to Dun & Bradstreet, the financial information company.

● Mr Seillière has welcomed the Organisation of Economic Co-operation and Development's recent criticism of the national minimum wage, paid to 2m workers, as a possible contributor to France's 9.3 per cent jobless rate. "We have been saying this for years. This considerably strengthens our argument," he said.

The OECD's criticism, in its annual survey on France, comes as the government is due to complete a regular six-monthly revision of the national minium wage, known as the Smic, for new rates to take effect on July 1.

Little push from the market will speed Italy's trains

Haig Simonian outlines the long-term overhaul plan for a slow, unpunctual and overcrowded railway

ITALY'S trains may be slow, unpunctual and often grossly overcrowded, but at least they are cheap.

Or they were until a three-stage price increase, begun last November and to be completed later this year, pushes up fares by more than 35 per cent. The increase now in its second phase, has already raised the fare for a return between Rome and Milan to L77,800 (£35).

At L59.27 per km, that is still good value compared with elsewhere in Europe. Even after the final fare rise, Italian train journeys will cost less than half the European average.

But in Italy the increases, which are part of an overhaul to improve quality, productivity and, eventually, the finances of the Ferrovie dello Stato (FS), Italy's national railway system, run the risk of creating expectations which may not be realised.

For decades, the FS has been a byword for inefficiency, overstaffing and political manipulation – not to mention corruption that triggered the mass resignation of its board of directors after revelations of inflated *purchasing contracts* for bed linen in 1988.

The FS remains a massive guzzler of cash – subsidies were L9,557bn in 1989, while direct contributions from the state for capital investment were a further L6,000bn.

For the past year, the task of supervising the planned transformation of the FS into a competitive system has been left to Mr Lorenzo Necci, a former chemicals industry boss.

Like his predecessor, Mr *Mario Schimberni, former head* of the Montedison chemicals group, Mr Necci carries the title of "special administrator", reflecting the powers with which he must set the railways straight.

Mr Schimberni, who fought a running battle against fractious unions and not always sympathetic ministers, laid the foundations for the more market-minded organisation now emerging.

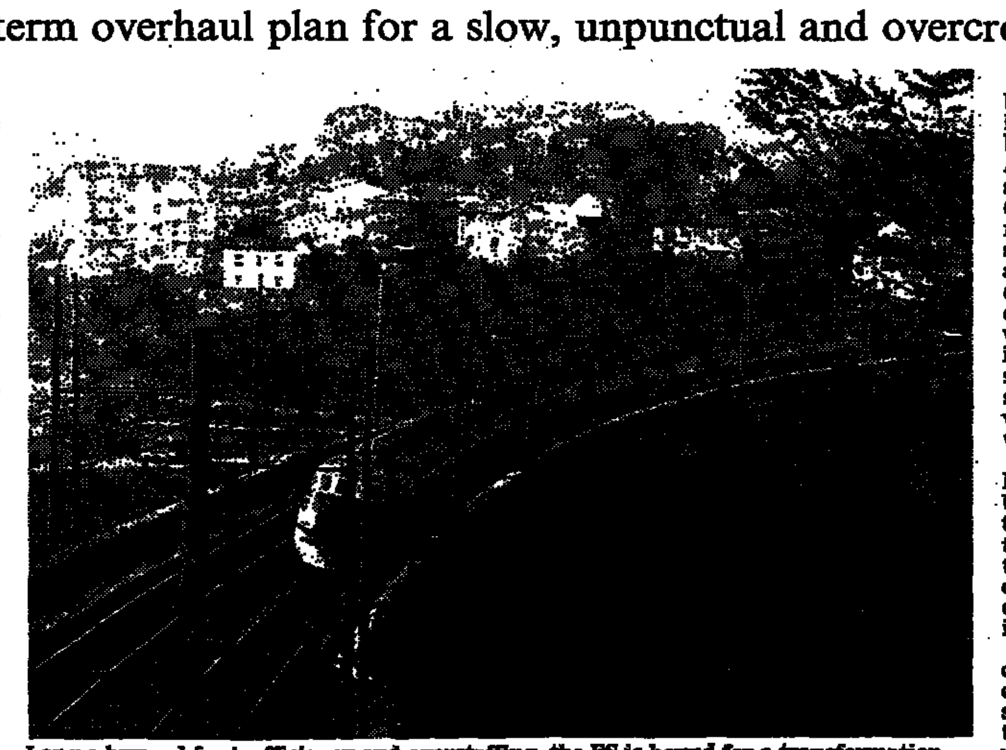
The traditional problem for the FS has been that most of its revenue comes from just a tiny proportion of its network, saddling it with huge fixed costs. Even today, 20 per cent of the network accounts for 80 per cent of traffic.

So while a bloated workforce runs barely-used lines in some parts of the country, severe bottlenecks based on inadequate infrastructure throttle demand elsewhere.

In April 1990, the government came up with a 10-year L100,000bn-plus investment plan to update the system. Spending for the first L30,000bn phase for 1991-92 has already been allocated.

The aim of the overhaul is to increase not only passengers, but also freight. As matters stand, the FS has a market share of little more than 10 per cent in both fields, well below its European counterparts.

Hand in hand with new investment goes an unprecedented package of labour cuts. In the past six months, 25,000 jobs have gone from the FS's 208,000 workforce. A further 15,000 redundancies are planned before the end of the year.



Long a byword for inefficiency and overstaffing, the FS is bound for a transformation

According to Mr Necci, the FS needs three to five years to become "healthy" in the sense of offering productivity comparable with other big European networks.

Reducing manpower is "the first thing" to be done, he says. He won't talk numbers, but around 18,000 jobs could be slashed if all Italy's level crossings were automated, for instance. Numbers would also fall were specialised activities to be spun off into separate companies.

Meanwhile, a change in the legal status of the FS from a cumbersome public-sector agency to an *ente economico*, a more market-related organisation, is in the process of being approved by parliament. While that has won widespread applause, views differ on opening the railways to private capital.

Mr Necci has already received approval from the government to develop a new high-speed rail network jointly with private-sector interests – a scheme accorded lower priority by Mr Schimberni, who was hostile to public-private co-operation.

The L30,000bn project, in which the FS will have a 40 per cent share, with the remainder being financed by a consortium of banks, will link Turin with Venice and Milan with Naples, making up for years of indecision and mismanagement and allowing Italy at last to catch up with similar schemes in France and Germany.

Despite the new harmony between the government and Mr Necci, there are still a number of obstacles on the tracks. Allowing a private-sector consortium to build a new Milan-Genoa high-speed link is the most prominent, with growing signs of a split between the FS and the transport ministry over the degree of independence to be allowed to the private sector. While the FS feels it should have ultimate responsibility, the transport ministry seems willing to give the private consortium greater leeway.

Further difficulties may also lie ahead on the labour front. Union agreement last year for the first 25,000 lay-offs came at the cost of a L600bn early-retirement scheme and a generous above-inflationary pay and conditions package for remaining staff.

The deal, which was widely criticised by private-sector employers, means that overall salary costs for FS will rise this year, despite the lower numbers employed.

Reaching agreement on the 15,000 redundancies still scheduled for 1991 may prove difficult given the pressures facing the government to control public-sector spending. And if planned reform of the state pension system takes place, the FS could find itself again in the front line of industrial action.

With union opposition to public spending cuts rising, the chances of renewed unrest on the railways after a period of relative peace is looming larger.

Walesa calls for increase in powers

By Christopher Bobinski

POLAND'S president, Mr Lech Walesa, has called on parliament to give the government special legislative powers for a year to "regulate economic matters".

According to Mr Slawomir Siwek, a presidential aide, the move is intended to help the government operate more quickly to solve economic problems; controversially, it would involve by-passing the legislature in certain key instances.

Parliament could well resist the proposal, which would require a special law to be passed.

The decision to seek special powers for the government comes one day after Mr Walesa finally vetoed a draft electoral law prepared by parliament. He said the draft law was unclear to voters and would prevent the emergence of political stability.

A two-thirds majority is now required in the Sejm, parliament's lower chamber, for the veto to be overruled and the draft to become law.

Yesterday, it remained unclear which economic issues would be regulated under the new special powers.

Government officials have said that taxes, the budget and privatisation issues would be excluded from the proposed *new powers and would remain* fully in parliament's hands.

The present government has recently taken to complaining that its initiatives are *being* held up by parliament; Mr Jan Krzysztof Bielecki, the prime minister, seems to approve Mr Walesa's idea.

Parliament has passed 174 new laws in two years, and 107 drafts are going through both *chambers at the moment*. Some 25 of these are draft laws prepared by the government and not all are connected with the economy.

● A delegation representing Poland's 200 air-traffic controllers is to see Mr Walesa today.

The controllers suspended a strike, in support of higher pay and reforms, after 10 hours on Monday following a request from the president.

He made appeals to the strikers instead of signing call-up papers for the controllers which would have brought them under military command.

Ambiguity clouds idea of pan-Europe confederation

By Ian Davidson in Paris

PRESIDENT Mitterrand's proposal for a pan-European *confederation* comes out of his belief that Europe, after its liberation from the Soviet Union, needs a new unifying structure to *establish political links between eastern and western Europe*.

But the range of nationalities represented at this week's conference in Prague to promote the idea, includes Americans, Russians and Japanese, implying that the vagueness of the original suggestion made on New Year's Eve 1989, not long after the fall of the Berlin Wall, is being exacerbated by an extra dose of ambiguity.

The *French government* had hoped to restrict this week's guest list to Europeans, even though President Mitterrand's original suggestion had been partly inspired by the Helsinki agreement, which includes the US as well *as the Soviet Union*.

But the Czechoslovak government – whose President Vaclav Havel is co-sponsoring the three-day conference attended by 150 prominent international personalities – insisted that the Americans should not be excluded. One reason was that they did not want to offend the Americans; another that they did not want the project for a purely European confed*eration to be transformed into a sub*stitute for membership of the European Community.

President Mitterrand has said that the principal qualification for membership must be the commitment to *democracy*. But *he has repeatedly* made clear that, in his conception, this "confederation" should not be intended to supplant the existing European Community of the Twelve, which must indeed become more integrated. Beyond that, however, he has not so far spelled out what he thinks a European confederation should do or how it should do it.

No conclusive answers to these *questions will be supplied* by this week's conference, since the participants are independent personalities from various walks of life, not government representatives. But the subjects of the five working groups to which they have been assigned – energy, environment, communications, movement of people, and culture – give some idea of the variegated collection of functions envisaged by the sponsors.

French officials draw a parallel between this week's Prague conference, and the 1948 European Congress in the Hague, which led to the establishment of the Council of Europe and later to the European Community. President Mitterrand was himself one of the participants at the 1948 congress.

But some people suspect that President Mitterrand's idea does not at this stage go any further than a pious belief that there must be many areas which should be suitable for ad hoc co-operation between European governments, and which when added together could be called a confederation.

What is evident, however, is that he does not envisage anything for the confederation which could restrict or infringe on the ambitions of the European Community.

Mubarak warns Shamir of rising Arab frustration

By Roger Matthews and Tony Walker in Cairo

PRESIDENT Hosni Mubarak of Egypt, in some of his toughest criticism yet of the Israeli leadership, yesterday accused Mr Yitzhak Shamir, Israel's prime minister, of undermining current Middle East peace efforts and described his attitude as "shocking".

In an exclusive interview with the Financial Times, Mr Mubarak said that Arab frustration with Israeli intransigence on the peace issue was mounting while hope of progress towards a settlement was receding.

"Mr Shamir will get very angry if I speak frankly. I'm not against Mr Shamir but I'm telling him that I cannot just sit here like this and applaud while he is saying no to exchanging land for peace, no for this, no for that. Let us be flexible if we want peace to prevail.

"You cannot keep the land and have peace. It is impossible."

The Egyptian president called for an immediate "confidence-building" moratorium on Israeli settlement activity in the occupied territories, and said that unless progress towards peace was achieved soon another critical opportunity would be lost.

"Continuing to build settlements indicates that there is no hope for solving the problem. It suggests that Mr Shamir is not intending to ... [give] Palestinians their rights. This is very contradictory, shocking and gives no hope for the future," he declared in a wide-ranging interview conducted at the Tahrir Palace in Cairo.

Mr Mubarak, who emerged at the outset of the Gulf crisis as a leader of the moderate bloc in the Arab world opposed to Iraq, said he was surprised and disappointed that after the conflict had subsided Israel had been unwilling to show greater flexibility.

Mr Shamir has said repeatedly that Israel is not willing to yield one inch of territory seized in the 1967 war, including the West Bank, Gaza Strip, East Jerusalem and the Golan Heights.

Mr Mubarak's stern remarks came as Mr David Levy, Israel's foreign minister, left for the US to explain the Israeli rejection of a compromise proposal aimed at breaking the stalemate on Middle East peace talks.

President George Bush, in a letter to Mr Shamir last week, had urged him to allow the United Nations to play a minor role in a proposed Middle East peace gathering, and to agree to the conference reconvening at six-monthly intervals to review progress.

But Mr Shamir, in a written reply, rejected Mr Bush's appeal and added new conditions for entering peace talks, saying Israel would insist on the right to veto Palestinian negotiators.

Mr James Baker, the US secretary of state, has visited the Middle East four times since early March in an effort to carry forward the peace process, but has made little progress.

Both the US and its moderate Arab friends have been urging President Hafez al-Assad of Syria to be as flexible as possible on terms for a peace conference. Damascus has insisted on UN involvement in a proposed conference and for the meeting to perform a supervisory role – conditions which Israel rejects.

Asked whether Syria was willing to be more flexible and thus avoid blame should the process fail, Mr Mubarak said: "I think Syria understands this and is moving towards much more flexibility, but on the other hand flexibility is also needed from Mr Shamir, especially from Mr Shamir."

Pressed on the question of whether Syria itself was really committed to peace, the Egyptian leader, who has been in frequent contact with President Assad, replied: "I'm sure that Syria is ready for peace, but it has to be on a fair basis. Syria fears that it may make concessions and Mr Shamir would never respond. He would just take the new concessions, put them in his pocket and never give anything in return."

On the vexed question of UN involvement in the proposed peace conference, Mr Mubarak said: "Look, the peace conference will be based on [UN Security Council 'land for peace' Resolutions] 242 and 338 ... so whether we like it or not the UN will be one of the important factors in the peace process."

Mr Mubarak warned that unless progress was made towards peace by the end of the year, time will have run out.

"The elections of the US president starts and everybody will be busy so the curve of the peace process will go down again," he said.

However, Mr Mubarak refused to speculate on the possible Egyptian or wider Arab response to a collapse of the process.

No Egyptian criticism, however, seems likely to be directed at Washington. Mr Mubarak singled out Mr Bush and his administration for praise, saying that: "President Bush is doing the maximum and his administration is one of the best administrations as far as I can remember."

Mubarak says the Israeli leader's attitude is undermining Middle East peace talks

UN urged to reform its aid structure

By Robert Taylor in Stockholm

THE NORDIC countries yesterday called on Mr Javier Pérez de Cuéllar, the United Nations secretary-general, to appoint a full-time famine relief co-ordinator for the Horn of Africa.

The initiative – which has the support of the European Community – comes from the Swedish Foreign Ministry. It reflects a Nordic desire for reform of the UN's development work. A growing number of countries, including Germany and Japan, have expressed their support for the proposals.

These aim to make the UN's development work "more transparent, responsive and accountable", says Mr Bengt Save-Soderbergh, a Swedish Foreign Ministry official, and co-author of a report on UN reform.

The Nordic group is highly critical of the way the UN conducts its aid work. It asserts that the response to the aftermath of the Gulf war produced "an unacceptable delay" because of a lack of co-ordination between the UN organisations involved.

"All too often, information from the UN agencies reaches the member states too late and is formulated in such a way as to cause confusion as to the actual relief needs and the organisations through which assistance should be channelled," the group says.

It complains that the Office of the UN Disaster Relief Co-ordinator is "too broad" and the organisation is not performing the functions laid down in its mandate.

But the group also criticises the fact that UN organisations have "virtually no reserve funds for speedy measures".

The Nordic group revives the idea of an international disaster relief insurance system first floated 10 years ago by a group at Uppsala University.

It says the UN's activities in this area have spawned a diversity of funds, programmes and organisations.

The result is a fragmented structure.

Hong Kong warns UK over boat people

A DELEGATION of Hong Kong legislators yesterday warned Mr Douglas Hurd, the British foreign secretary, that the colony could face an outbreak of violence in refugee camps if steps were not taken rapidly to stem the growing inflow of Vietnamese boat people, writes Robert Mauthner, Diplomatic Editor.

The legislators also warned Mr Hurd that if nothing was done to improve the situation they might vote later this year to repeal the law of first asylum, under which the boat people are allowed into Hong Kong. This could provoke a constitutional crisis between the colony and Britain.

Tamils offer peace talks

Tamil rebels yesterday said that they were ready for peace talks to end the eight-year civil war and suggested negotiations in Europe, AP reports from Colombo.

The offer came one year after the Liberation Tigers of Tamil Eelam, the rebel militia, broke a ceasefire and resumed their civil war against the army. "The LTTE is showing a willingness to take part in direct, unconditional talks with the Sri Lankan government," said Mr Lawrence Thilaker, a Tamil spokesman.

Ethiopian port road reopens

Forty trucks carrying fuel, relief supplies and fertilizer from the Red Sea port of Assab headed to Ethiopia's capital yesterday following the reopening of a vital road linking Addis Ababa and the coast, AP reports from Addis Ababa.

The port, 400 miles north-east of the capital, is crucial to the delivery of relief supplies for many of the nation's estimated 7.3m drought victims.

Fears of coup grow in Fiji

Fiji's military yesterday ordered 3,000 reservists to report to their bases, raising fears of a third military coup, Reuter reports from Suva.

The order, broadcast on state-owned Radio Fiji, followed a call last Saturday by Fiji's military forces commander, Maj-Gen Sitiveni Rabuka, for the interim government to resign.

UN adopts tough line on Iraqi sanctions

By Michael Littlejohns, UN Correspondent in New York

SANCTIONS must be maintained against Iraq as long as President Saddam Hussein fails to comply fully with United Nations ceasefire terms, the Security Council agreed yesterday.

During the first full-scale review of the situation 60 days after the truce ending the Gulf war went into effect, western members voiced concern that Iraqi forces might be preparing an offensive against Shia Moslem civilians who have sought refuge in marshland in the south of the country.

Tehran radio said yesterday that 100,000 Iraqi troops were preparing an all-out offensive, including aerial and amphibious assaults, against hundreds of thousands of Shia refugees.

The reports, which followed accounts of persistent hit-and-run operations by armed Shia rebels against government forces in Basra, could not be independently confirmed.

Sir David Hannay, the UK delegate, criticised Iraqi actions since the ceasefire, calling Baghdad's performance "far from encouraging", with serious issues of non-compliance still remaining. He again raised the case of the detained Britons Mr Douglas Brand and Mr Ian Richter, saying that the seizing of Mr Brand was "a particularly flagrant violation" of UN resolutions.

"We will be heavily influenced in our approach to subsequent reviews by the Council of sanctions, by the Iraqi attitude to the release of both men," Sir David said.

He called for a comprehensive report on progress by Mr Richard Foran, a Canadian special envoy of the UN who is trying to get Iraq to return stolen property. It was inexplicable that stolen gold, foreign currency and aircraft were still being held, the British representative said.

Referring to the problems in southern Iraq, he said the establishment of a humanitarian UN centre in Basra might shed more light on that situation.

As a UN team of experts continued a five-day on-site inquiry into Iraqi chemical weapon stock in Muthanna, north-west of Baghdad, the Iraqi government yesterday rejected liability for the cost of destroying these weapons, which according to some estimates could be as high as $200m (£115.6m).

However, in a letter to the UN, the government said it was ready "by its own efforts to destroy or render harmless the said weapons", adding that it had the expertise and technical facilities.

Mr Robert Galucci, vice-chairman of the special commission of inquiry said that the proposal could be pursued if the matériel could be destroyed under proper supervision.

Reuter adds from Baghdad: Iraq said yesterday an agreement between President Saddam Hussein's government and Kurdish rebels would be announced shortly, but gave no indication what form it would take. The defence ministry said a statement would be issued "soon".

UK links hostages to investment in Beirut

MR Douglas Hogg, the British foreign office minister, yesterday linked foreign investment in Lebanon to freedom for the western hostages, AP reports from Beirut.

Mr Hogg told reporters: "Clearly what this country needs is investment, confidence, people coming back to invest here. And that inevitably will not happen until all hostages are released." Before the release of the hostages, Mr Hogg said, "there will not be the confidence among the European people to come back, or the Americans, or even your own expatriates. So it's very important for the interest of Lebanon and the people of Lebanon that this problem be solved."

Earlier, the minister met Lebanese government leaders on the third day of his mission to secure the freedom of hostages held in Lebanon. Mr Hogg held separate talks with President Elias Hrawi, a Maronite Catholic; the prime minister, Mr Omar Karami, a Sunni Moslem; and Mr Hussein Husseini, the house speaker, and a Shia Moslem. After his one-hour talk with Mr Hrawi, Mr Hogg said: "We discussed the question of all the hostages, particularly the British hostages. It was a helpful meeting."

He also was scheduled to meet the foreign minister, Mr Fares Boueiz, before travelling on to Syria today.

Missing in Lebanon are six Americans, four Britons, two Germans and an Italian.

Most of them are believed to be held by pro-Iranian Shia Moslem factions.

■ Israel's ambassador to London said yesterday that his country is prepared to exchange its Arab prisoners for the western hostages and Israeli prisoners held in Lebanon. Mr Yoav Biran told BBC television that Israel is ready to enter negotiations to make the swap.

Mr Biran said that Israel would be willing to exchange a number of Palestinian and Arab prisoners for the seven Israelis missing in action in Lebanon and the 13 western hostages.

Manila to negotiate new loan

By Greg Hutchinson in Manila

THE Philippines plans to negotiate a $300m to $1bn loan package from the World Bank, the Asian Development Bank, the Japan Export-Import Bank and the Overseas Economic Co-operation Fund (OECF), also of Japan.

Mr Jesus Estanislao, the Philippine finance secretary, told reporters yesterday that the new loan would be similar to the 1986 $300m World Bank economic recovery loan, funded equally by Japan's Eximbank and the Asian Development Bank.

The intended fresh loan would in effect be the third structural adjustment facility granted by the World Bank, and would be focused on the development of the private sector through 1992 and beyond.

The first of such loans was provided in the 1980s before President Corazon Aquino came to power, although its thrust was less private-sector oriented.

Mr Estanislao described the intended loan as the administration's "send off" to the incoming government after presidential elections next May. The loan would require a broader pursuit of economic reforms, including the liberalisation of investment and trade regulations, accelerated privatisation, deregulation of oil pricing and further reforms in the duty collections system of the Customs Bureau.

The programme would seal the privatisation of the National Steel Corporation, the Philippine Phosphate Fertiliser Corporation and the Philippine Associated Smelting and Refining Corporation.

Three others, for which no decision had previously been made – namely, Semirara Coal Corporation, the North Davao Mining Corporation and the Metro Manila Transit Corporation – would also be sold to the public.

The IFC, the investment arm of the World Bank, would recommend how the latter three companies would be privatised.

Pro-western army chief appointed in Pakistan

WEEKS of intense speculation finally ended as Pakistan's President Ghulam Ishaq Khan yesterday appointed Lt-Gen Asif Nawaz Janjua as new army chief-of-staff, writes Farhan Bokhari in Islamabad.

The pro-western general will replace Gen Mirza Aslam Beg, who took over as the army chief after General Zia-ul-Haq was killed in an air crash in August, 1988. Gen Beg is due to retire in August and has denied that he would seek to extend his tenure.

The issue of the army chief's appointment has attracted much attention in the local press and during private discussions among politicians, amid speculation that Gen Beg's term of office would be extended.

Gen Janjua's appointment appears part of an effort to strengthen ties with the US. Talks between the two sides started in Washington yesterday, aimed at preventing a further deterioration in relations over the nuclear issue. Relations between Pakistan and the US have been damaged by the cut-off of US economic and military aid, and Gen Beg's anti-western statements during the Gulf war. Pakistan sent 11,000 troops to Saudi Arabia as part of the allied forces.

Indian election resumes

By David Housego in New Delhi

POLLING resumes in India's general election today with the Congress party widely believed to have improved its position after Rajiv Gandhi's assassination.

Though Congress seems certain to emerge as the single largest party, it is likely to need support – most probably from the communists – to form a government.

The first day of polling was on May 20 when voting took place for 204 of the 510 seats being contested. After Mr Gandhi's death on May 21 voting was postponed for three weeks in the remaining constituencies.

President R. Venkataram took the unusual step on Saturday night of appealing on television for a free and fair poll. "Parties that gain power through malpractices will not get the co-operation of the people," he said.

His strongly worded statement was intended to prevent the widespread violence and ballot rigging which occurred on the first day of polling when 100 people died and voting was cancelled in five constituencies because of malpractices.

But Mr Venkataram's remarks were also seen as a sign of the president asserting a greater role for himself at a time of great political fluidity. He has been widely criticised for taking the initiative in proposing a national government and even the cancellation of the election.

Since Mr Gandhi's death, public interest in the campaign has dwindled – as has the violence. The big exception is the Punjab which goes to the polls separately on June 22 and where 20 candidates have been killed since the campaign began.

Polling will take place today in 113 constituencies in 13 states. A further 186 seats are being contested on Saturday.

A moderate to low turnout is expected today and on Saturday, with the risk of monsoon rains also likely to deter voters in the south and west.

A Bombay family makes its way through the streets yesterday during heavy monsoon rains which have killed at least 44 people

World Bank patient with a chance

Tony Hawkins on Zimbabwe's move to take the adjustment medicine

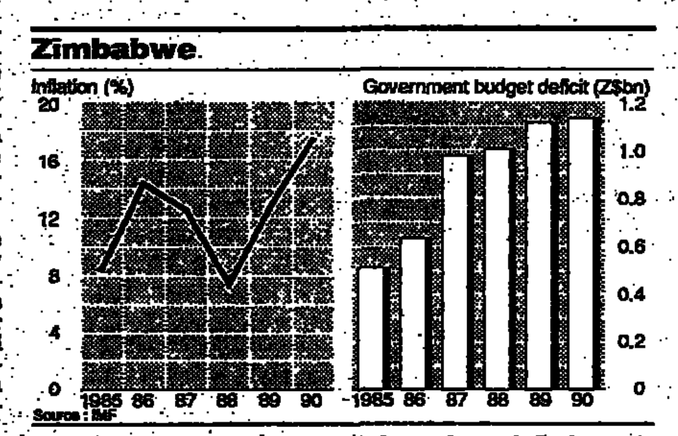
FEW of the 30-odd sub-Saharan African countries that have embarked on a World Bank structural adjustment programme have done so with a better chance of success than Zimbabwe, the latest government in the region to start taking the World Bank medicine.

Zimbabwe has many of the qualities necessary for policy reform to work; its infrastructure has not been run down as in Ghana, Nigeria, Tanzania or Zambia. After South Africa and Nigeria it has the strongest private sector in the region and a relatively sophisticated industrial base.

It is not a mono-economy dependent on a single crop or metal, nor is its debt burden overwhelming, while its skills base is stronger than almost anywhere on the continent. Above all, it has not yet succumbed to the aid addiction that is undermining private initiative in so many African states.

Whether these strengths will be enough for Zimbabwe to succeed remains to be seen. After the go-it-alone reform plan of Mr Bernard Chidzero, finance minister, was aborted late last year, the programme was relaunched with strong World Bank backing in March. At a meeting in Paris, donors pledged $700m for the first year of the five-year programme, which envisages trade liberalisation, an end to price controls, deregulating the financial system, and reducing the budget deficit.

But that money has not yet started to flow, while exports – other than tobacco – are under-performing. Depressed metal prices and a serious drought are threatening the projected 8 per cent growth in exports (in US dollars).



Export hopes this year are almost totally dependent on tobacco; so far this season, leaf prices, in US dollars, are 50 per cent above last year's levels, but some merchants doubt whether this can be sustained, warning that when the US auctions open early next month Harare prices could fall.

To close a widening foreign exchange gap, bridging loans are being arranged with Barclays and Standard Chartered banks. But even with this costly commercial funding in place, the target of liberalising trade to the point where 30 per cent of imports are on open licence by the end of 1991 is looking increasingly out of reach.

Missing this target would be disappointing but far less serious than a failure to get to grips with both inflation and the budget deficit. At the Paris consultative group meeting, it was evident that several donors were sceptical of Zimbabwe's commitment to reform. Tightening the monetary and fiscal stance would reassure doubtful donors and help curb an inflation rate which is already above 20 per cent on official figures and closer to 30 per cent on unofficial estimates.

The danger is that when interest rates are raised, they will not go high enough because the government is wary of the political consequences – especially among thousands of homeowners with large mortgages. Meanwhile, consumer demand is buoyant, house and stock prices have soared and there are all the signs of a consumer-led boom, which is just what the country does not need.

Donors will be watching the July budget even more closely than interest rates to see how far and fast Mr Chidzero is moving to trim the budget deficit and retrench civil servants. He is committed to halving the budget deficit to 5 per cent of gross domestic product and to shedding 26,000 public service jobs (a quarter of the total) by 1994-95.

With the programme calling for lower tax rates, the burden of deficit reduction will fall on spending cuts, supported by higher revenues from customs duties as tariffs replace import controls. Cutting public spending will be a formidable task against a background of rapid inflation, escalating unemployment – rising from around 250,000 at independence a little more than 10 years ago to an estimated 1.25m – and the need to provide drought relief, set against mounting political dissatisfaction.

Confidence in the programme is not being helped by persistent rumours that Mr Chidzero, architect of reform, may not see the process through. Even if he fails in his bid for the post of secretary-general of the United Nations, due to be decided later this year, he is thought anxious to leave his post.

With no elections due until 1995, there is much to be said for vigorous early action, in the hope that the worst will be past by then.

Above all, there is South Africa. It is clear that future economic decisions about investment and markets in southern Africa will be made regionally: South Africa holds most of the aces – the larger market, the benefits of scale economies, more advanced technology, deeper and broader industrial clusters, and a superior infrastructure.

The longer Zimbabwe prevaricates, the greater the probability that its efforts to diversify and expand exports of manufactures will be frustrated by aggressive South African competition.

Since the growth of non-traditional exports is crucial to the success of reform in Zimbabwe, Harare must steal a march on Pretoria while the South Africans are preoccupied with internal politics.

Buthelezi denies arms allegations

By Patti Waldmeir in Johannesburg

CHIEF Mangosuthu Buthelezi, leader of the mainly Zulu Inkatha Freedom party, has denied allegations that the South African Defence Force has provided funding and weapons to his party as part of a strategy to weaken his political rivals, the African National Congress (ANC).

Newspaper reports had earlier quoted a former member of South African military intelligence, Mr Nico Basson, as saying that the SADF bought AK-47 rifles and used them to arm Inkatha. He alleged that the violence which has left some 1,800 people dead since August in the Johannesburg area had been deliberately orchestrated by the SADF. That violence has often pitted supporters of Inkatha against supporters of the ANC.

The strategy behind the violence, he said, was to create ethnic divisions, and to boost support for Inkatha as a potential moderate alliance partner with the ruling National party in the first post-apartheid elections.

UK plans to accelerate changes on insurance in Europe

By David Waller

BRITAIN will use its presidency of the European Commission next year to speed up the implementation of a European agreement on the liberalising the market in life insurance services, Mr John Redwood, corporate affairs minister said yesterday.

Launching a consultative document on the EC's Third Life Insurance Directive, Mr Redwood said he welcomed the Directive's intention to balance prudent supervision for policy-holders with the need for an open market to give people choice.

The directive, which will enable insurance groups to operate freely across the European Community according to their home countries' rules, was formally adopted by the European Commission in February this year and was described yesterday by Mr Redwood as "the last important single market measure proposed for the financial services sector".

He made it clear, however, that the UK would be taking a firm line in forthcoming negotiations to ensure that the market is properly liberalised.

The government will seek to ensure that customers' interests are looked after not by detailed regulation but by proper disclosure of the compensation arrangements available to policy-holders.

It also wants the measures of the directive to include: freedom for composite insurance companies to offer their services across the EC; the abolition of prior approval of terms of life policies by host state regulators, and; the avoidance of unduly restrictive investment controls.

The government's demands are likely to be challenged during the negotiations by countries such as Germany and Belgium, traditional opponents of of insurance liberalisation. The UK's line will be that regulators should not get involved in investment judgments, but concentrate on the rules of prudence.

Mr Redwood said the aim of the negotiations would be to reach agreement by the end of next year.

The UK's Presidency of the European Commission in Brussels in the second half of 1992 would help in getting agreement, he said.

European Commission Proposal for a Third Life Insurance Directive (The Life Framework Directive), Consultative Document 1991. Available from the Insurance Division, the Department of Trade and Industry, Room 818, 10-18 Victoria St., London SW1H ONN.

Major ready to compromise on monetary union

By Philip Stephens, Political Editor

MR JOHN MAJOR, the prime minister, confirmed yesterday that he expects to sign up to a compromise deal on a single European currency, but was careful to offer the anti-Federalist wing of his party some tough words on the pace of integration.

The latest episode in his delicate balancing act over Europe came as a leaked memorandum from the right-wing Bruges Group suggested that he was ready to cave in to pressure from other European leaders.

The "private and confidential" note signalled the start of a campaign by the group's supporters among Tory MPs to persuade Mr Major to veto plans for European economic and monetary union (Emu). Facing a strong attack from Mr Neil Kinnock, the opposition Labour party leader, in the House of Commons, Mr Major did little to conceal his irritation with Mrs Margaret Thatcher's sponsorship of the group. She became its patron after stepping down as prime minister.

In response to Mr Kinnock's charge that the memorandum had exposed deep divisions at the heart of the Conservative party, Mr Major denied that there had been any shift in the government's implacable opposition to the "imposition" of single currency. He repeated his view that the economic case for Emu had not been made by Britain's partners.

The prime minister, however, suggested that he had little power to veto an agreement by other states to press ahead with progress towards a single currency. He said also that the government would remain fully engaged in the negotiations for the rest of this year.

Officials later reinforced the view that Mr Major is willing to accept a formula for Emu based on what has become know as the "Delors" compromise. The proposal of Mr Jacques Delors, European Commission president, provides for Britain to agree the treaty changes necessary for Emu but to defer to a future parliament a decision on its participation. The government could then claim that there was no question of the "imposition" of a single currency.

The message from the government yesterday was that Mr Major regarded Britain's influence at the negotiating table as more important than its theoretical right of veto. His view was that if that veto was exercised, the other 11 governments would simply bypass the Treaty of Rome and set up separate arrangements for monetary union.

To avoid that Britain is willing to discuss in the intergovernmental conferences the details of all stages towards Emu. That readiness sparked reports from other European governments that Mr Norman Lamont, the chancellor, had softened his position at a meeting of finance ministers earlier this week.

Mr Major, however, remains determined to avoid being "bounced" into an immediate agreement on Emu at the Luxembourg summit later this month. Officials insisted that a final decision on whether to accept the Delors compromise would depend on the details thrashed out in the intergovernmental conference in the second half of this year. "We are not putting all our cards face up on the table", one commented.

Lilley struggles to bloom as trade minister

Ralph Atkins on the prospects for the politician entrusted with industrial policy

MR PETER Lilley, a trade and industry secretary described by opposition Labour predators and some Tory MPs as both a frightened rabbit and a rigorous intellectual, steps into the on-coming headlights this week.

A milestone speech on competition policy today, a House of Commons debate on the recession tomorrow, and speeches to Welsh businessmen and Tories on Friday, offer the opportunity to prove he is a political heavy-weight – or confirm the fears of a few Conservatives that he is a victim of premature promotion.

Mr Lilley, who is pushing through the privatisation of Britain's Export Credit Guarantees Department, has yet to prove to MPs that he has the stature – on top of his recognised mental prowess – required of a Cabinet minister.

He looks far younger than his 47 years and critics say his parliamentary performances have lacked flair or the confidence of an established parliamentarian.

Sprung a year ago from relative obscurity as a Treasury minister to replace the self-combusting Mr Nicholas Ridley, he joined the Cabinet when the government of Mrs Margaret Thatcher was in disarray.

Now, with Mr John Major pinning hopes of electoral recovery on an economic upturn, his Thatcherite "hand-offs" policy appears misplaced to many Tories worried about the recession. "I do wonder if he is beginning to develop into a liability," said one usually earnestly-loyal Tory backbencher.

Mr Lilley has so far left his imprint in strategic, but subtle, decisions. Foreign state-owned companies seeking to take over UK companies are being subject to particular scrutiny through fears of "nationalisation by the back door".

Alan Harper

Caught in the headlights: Peter Lilley (above) negotiates the traffic in Downing Street

A further exposition of the "Lilley doctrine" will come in his speech today. He has won plaudits from Tories for his stand on Gatt and in promoting innovation.

Mr Lilley faces, too, the possibility of a takeover of Imperial Chemical Industries (ICI) by Hanson, the UK conglomerate, blowing into a political row to dominate the torpid atmosphere at Westminster this summer.

He has taken a characteristically non-interventionist stance. But one exasperated Tory with an ICI plant in his constituency said: "If he can't say anything for legal reasons, what is the DTI doing there?"

Despite shared beliefs in unfettered competition, Mr Lilley is a different animal to his predecessor. Whereas Mr Ridley reportedly asked on his first day at the Deparment of Trade and Industry, "What is this building for?", Mr Lilley has sought to define its role in a series of speeches of which today's is the latest.

"He is determined to create his own policy and put his stamp on the department in a studied way, and not rush in because people have been critical," says Mr Michael Grylls, chairman of the Conservative backbench trade and industry committee.

Sir Giles Shaw, former industry minister, says: "He shows a capacity to learn and change and that is very welcome in a cabinet minister."

Even Labour agree that what Mr Lilley says is at least coherent; one official said his speeches, delivered by someone else, would make more headway.

Mr Lilley does not shy from his commitment to the ideology of the deeply-Thatcherite No Turning Back Group.

The great weakness is in presentation. In the House of Commons he appears nervous and unnecessarily brittle, as if caught in the glare of an fast approaching car. While a Treasury minister he was rebuked by the Speaker after a bruising run-in with a Labour MP. Against Mr Gordon Brown, Labour's trade and industry spokesman and expert in political jousting, he frequently comes off worst. "He just looks like a frightened rabbit," said one Tory MP

One friend of Mr Lilley admits his strengths, "do not lie in rumbustious bullying. . . he is a particularly quiet and reflective person. His strength has always lain in his intellectual rigour and the courage with which he sticks to the line." He colleagues say he is capable of picking up the finest of details and in detecting inconsistency.

For some, his poor Commons performances are irrelevant. "You really can't judge a minister on whether he is clubbable or not," says Mr Grylls. "What you want is a minister who develops the right policies . . He is not a man who is interested in the superficialities of political life."

But others privately believe his reticence is hindering his career. He rarely socialises at Westminster, backbenchers complain. "He needs to show that he is a political animal, that he is friendly and warm," said one ex-minister.

Their concern is that if he cannot work with backbench colleagues, how will he be able to work with businessmen? "He has got to be able to go up to a club of industrialists and say, 'look you lot, pull your finger out,'" says one Tory backbencher.

To an extent, Mr Lilley suffers from working alongside like minded men. Mr John Redwood, minister for corporate affairs, and Mr Edward Leigh, consumer affairs minister, have a similar No Turning Back Group ideology and a similar outwardly cold exterior.

There is no dash. They do not have the long ears and politically-sensitive noses of other ministers. To some at Westminster, it is as if they are more comfortable in the DTI's warren of offices, than open green benches of the Commons chamber.

Mercury faces £189m in costs

By Hugo Dixon

MERCURY Communications claimed yesterday that it was facing £189m a year in extra costs because it was a new competitor to BT, the telecommunication industry's dominant player.

Mr Peter van Cuylenburg, Mercury's chief executive, launched the concept that it was facing a "life-cycle deficit" as its latest attempt to persuade Oftel, the industry regulator, not to press ahead with controversial plans to allow BT to charge competitors an access charge for using its local network.

Oftel said Sir Bryan Carsberg, its director-general, accepted that Mercury's argument had some validity. The expectation is that he will now modify his original proposals when he announces them in about two weeks but that he will not abandon them completely.

Mr van Cuylenburg said that Mercury faced a cost disadvantage vis-a-vis BT because it was a new competitor with a smaller market share. This meant, among other things, that equipment and capital cost more.

He said that this life-cycle deficit should be set against BT's claim to be facing an access line deficit. BT has argued that it is at a disadvantage because it is not allowed by Oftel to increase its line rental charges by more than the rate of inflation, plus two per cent a year.

Mr van Cuylenburg also said he did not believe BT's claim that its access line deficit was as high as £2bn a year. BT, however, said it stood by that figure.

● BT, the telecommunications group, has set up a £3m seed capital fund to provide small amounts of equity and loan capital to new businesses in less prosperous parts of the UK.

The fund plans to provide amounts of between £50,000 and £150,000 to fill a gap in funds available to small businesses. It will take minority equity holdings in the businesses it backs.

British Gas threatened with legal action

By Deborah Hargreaves

COMPANIES planning to build two new power stations have issued writs against British Gas over its failure to agree gas supply contracts.

At the same time, Mr John Wakeham, energy secretary, is understood to have met Mr Robert Evans, British Gas chairman, to discuss the power row which is threatening the government's plans for the development of greater competition in the electricity generation market.

Mobil Oil and Eastern Electricity, which are planning to build a joint venture power station in Essex, and Thames Power, a consortium which plans to build a station at Barking, London, have issued writs in the High Court against British Gas.

These are largely a formality to maintain the companies rights in negotiations with British Gas, but they reflect growing impatience on the part of the power companies.

"We are disappointed at the lack of progress with the negotiations," a Mobil official said. "We made our expectations clear to British Gas and they haven't responded: the ball is firmly in their court."

British Gas was forced to enter talks with the two projects by its regulator, the Office of Gas Supply, after it raised gas prices for new power projects by 35 per cent in March. But British Gas is wary of setting a precedent for other power projects.

For this reason, the two power projects may be forced to settle on gas at the new, higher price and recoup the difference in the courts.

The company raised the price of gas to stifle an upsurge in demand from the newly-privatised electricity industry which it saw no prospects of supplying. British Gas has also issued a writ against its regulator in a row that could escalate into an embarrassing round of litigation.

"We hope that a solution can be found without recourse to litigation, but at the end of the day, that remains a possibility," a British Gas official said.

Mr Malcom Keay, deputy director general of Ofgas, said yesterday, the regulator would like the negotiations to be speeded up and for a realistic schedule to be put in place for other power customers. "We believe British Gas can supply these projects at a reasonable price."

Mr Keay said Ofgas is still analysing data from British Gas on power supply and had put proposals to the company, but is awaiting a response.

● British Gas has agreed to make gas available to 5 companies in a series of swap deals which run until September 1992. The move is a way of encouraging competition in the gas market.

Security guards occupy city's control centre

By Ian Hamilton Fazey, Northern Correspondent

LIVERPOOL city council slid further towards chaos last night as up to 10 members of a group of security guards facing redundancy occupied a control centre from which hundreds of public buildings are guarded.

As moves to evict the group began, the council said weeks of industrial action, prompted by the council's plan to shed 1,000 jobs, had left 12,000 tons of rubbish uncollected and threatened the city's schedule for repaying its debts to banks and government bodies. The plan aims to reduce overstaffing and inefficiency.

Officials said council repair and maintenance workers were running out of materials because stores were being picketed. A strike by housing clerks has forced the council to spend £16,000 a week on bed and breakfast accommodation for homeless families.

The security centre occupied yesterday controls closed-circuit TV and security alarms on more than 500 council buildings, many of them schools. It also has direct lines to police stations throughout Liverpool. With more than £50,000 of advanced electronic equipment, it is the city's first-line defence against theft.

According to senior council officers, the protesters "persuaded" two highly-trained guards in charge of the centre to unlock outer and inner security doors at the same time and then evicted them.

Council officers plan to seek a court order today so that police can evict the occupiers. They failed yesterday to persuade them to leave quietly, finally issuing an ultimatum threatening legal action. "Our major concern is not to provoke them into committing damage," Mr Ken Robinson, director of environmental services, said.

He said the occupiers were recognised by the evicted guards as members of Liverpool's "static" security force. This was a group of 150 men recruited during the period of Militant-led control of the city to serve in council offices.

It functioned separately from the city's 120-strong pre-existing mobile security force, which continued to patrol buildings, linking with the control centre when it was built.

Observer, Page 16

Liverpool rocks to sound of strikes and bankruptcy

Ian Hamilton Fazey finds a city in financial chaos

UNION leaders are trying to escalate their 10-week dispute with Liverpool city council over 1,000 redundancies by forcing the city to default on interest charges and debt repayments.

The aim is to damage Liverpool's reputation in money markets and create a financial crisis which the unions hope might destroy confidence among creditors and drive the city into bankruptcy.

The move comes as selective strikes and other industrial action – which council managers say are sometimes enforced by intimidation – are beginning to bite.

- 12,000 tonnes of garbage remains uncollected;
- council repair and maintenance men are running out of materials because stores are picketed;
- a strike by housing clerks has forced the council to spend £16,000 a week on bed and breakfast accommodation for homeless families;
- rent arrears have risen by £1m to pass the £25m mark, and are still rising;
- newly-empty council flats and houses are being robbed of fittings and plumbing because they can no longer be made secure and watched prior to reletting. Each will cost £15,000 to repair. More than 100 may be involved.

Council leaders stressed yesterday that they will not give in. They say that overstaffing and low productivity are making it impossible to run Liverpool efficiently and give people value for money.

Conceding to the unions, which are supported, and in some cases led, by members of Militant Tendency and the Broad Left, would make the city ungovernable. Both groups are Marxist dominated.

In the latest escalation attempt, clerks and supervisors in the city's treasury department are being balloted over striking to stop interest charges and capital repayments being made on due dates.

The city has total debts of more than £700m, with costs and repayments of about £100m a year.

Most money is owed to the Public Works Loan Board for housing and other municipal building projects over several decades, but other debts are to foreign banks, which bailed out the city during the financial crises of the 1980s created by deliberate overspending by its then Militant-led council.

A strike would also cause problems of treasury management, with the council failing to maximise any interest it might earn on cash balances.

Mr Phil Kelly, the city treasurer, said: "The importance of the city fulfilling its obligations is so great that it is unthinkable that we should not make repayments or meet interest charges on due dates.

"If a strike is supported and called, senior management will make sure that Liverpool does not default. That will mean we would have no time for other work, such as trying to find ways of saving as many jobs as we can, so any action will rebound right back on the unions."

There are signs, however, of cracks in the unions' ranks. Mr Ken Robinson, director of environmental services, said yesterday that 148 men of the 362 in his department listed for compulsory redundancy had secretly contacted officials asking to be paid off immediately.

"A lot of people are very unhappy about the dispute and the intimidation they have been facing. There is a general air of intimidation. We have had 10 years of it in the department and on occasions there have been physical assaults," he said.

Naked truth: uncollected rubbish piles up

Mr Alan Dean, a Labour moderate and deputy leader of the council, said: "We have a redeployment scheme to try and minimise redundancies but people who have put in for other jobs have been 'visited' by some of their colleagues. Two days later they have come back to us to withdraw their applications.

"People are resigning from Nalgo [the local government union] in droves and joining any other appropriate union where they won't feel threatened. The council's children's homes are being used as a political football and picketed.

"This is all about who runs Liverpool."

Unions offer 'realistic' pay line to Ford

By Diane Summers, Labour Staff

UNION leaders representing 32,000 manual workers at Ford, the US-owned vehicle manufacturer, yesterday said they would be taking a "realistic" line on pay this year in view of the company's difficulties.

The unions indicated that the settlement could be around the level of inflation – this could drop to 3 or 4 per cent by the time the negotiations are due to start in October. Ford pay talks traditionally form a benchmark for other motor industry negotiations and manufacturing pay generally.

In return, unions want to see a job security agreement, along the lines of deals done in the US and Europe. There have been particular fears about the long-term future of the Halewood and Dagenham plants, although the company has said it has no immediate plans to reduce jobs in Britain beyond the 980 job losses announced earlier this year.

A reduction in the working week from the current 39 hours and improvements to the pension scheme are also sought as part of the deal.

Ford of Britain disclosed last month that it made a loss – a pre-tax deficit of £274m – for the first time in 20 years.

BRITAIN IN BRIEF

TWA staff in Heathrow strike threat

A majority of the 294 Trans World Airlines' staff at London's Heathrow airport have voted for strike action against the US carrier in protest at the new terms and conditions they claim are being imposed upon them by their new employer, American Airlines which begins operating TWA routes to Heathrow next month.

American Airlines, one of the largest US carriers, is insisting that the 294 TWA staff at Heathrow sign new individual contracts to transfer employment with an end to union recognition. American is taking over TWA's three main US-London routes on July 1.

Advice on hospital care

Hospitals have been advised they must not agree contracts with GP fund-holders – family doctors who purchase their patients' hospital care from pre-allocated budgets – which would disadvantage other patients.

Mr William Waldegrave, health secretary, said he expected that the guidance would be "welcomed by clinicians and patients alike."

Wales aims for electronics

A new initiative to attract international electronics companies to Wales was launched by the government, the Welsh Development Agency, the Cardiff Bay Development Corporation and six local authorities.

The initiative aims to attract five major inward investments in the next 12 months. The project will run for two years and will have a marketing budget of £500,000.

Law review of damages

Lord Mackay, the Lord Chancellor, has asked the Law Commission, the government's law reform body, to carry out a fundamental review of damages.

Announcing the Commission's law reform programme for the next two years, the Lord Chancellor said it would also conduct a thorough examination of the judicial review system.

R-R seeks land sale probe

Unions at Rolls-Royce called on Parliament to investigate the sale in April of a 284-acre Ministry of Defence site at Leavesden, near Watford, to the aero-engine maker: two weeks before the company announced the closure of the plant and the sacking of its 2,000 workforce.

Obstacle in hostage release

One obstacle preventing the release of the British hostages in Lebanon was "the holding by the Israeli government of Sheik Obeid and other Lebanese hostages", a Conservative MP said.

Prime Minister John Major reiterated the government's commitment to ending the ordeal of the hostages and said it was wrong for any country to take and to hold hostages.

Computer TV relaunched

The Computer Channel, which broadcast briefly on the British Satellite Broadcasting satellite last year is being revived on video cassette following a management buy-out.

The specialist channel was designed to deliver both news and training films via satellite to the computer industry all over Europe. The channel collapsed last November with the merger of BSB and Sky Television.

Jobs soar in tourism

More than 2m jobs in Britain are now supported by the tourism and leisure industries, says the English Tourist Board. About 160,000 new jobs were created between 1985 and 1989, making it one of the fastest growing areas of the economy.

Police case dismissed

Three police officers charged with conspiracy to pervert the course of justice were discharged by a London magistrate. The officers were charged in relation to interviews with Patrick Armstrong, one of the men known as the Guildford Four. The men, who had been convicted in 1975 after a pub was bombed in the Surrey town, were released earlier this year by the Court of Appeal after evidence emerged of alleged malpractice by Surrey officers.

Pay cut threat prompts ballot

An industrial action ballot of 1,000 workers at a London Buses subsidiary has been called over a proposed 18 per cent pay cut. The cut is thought to be the largest ever sought because of competitive tendering on London bus routes.

Bus workers and engineering staff held a disruptive meeting and are to be balloted on action this Friday. The TGWU general union said the company wanted to cut pay and lengthen working hours.

Building union seeks members

UCATT, the troubled construction union, launched a recruitment campaign on building sites throughout the UK in an attempt to fight off a threat to its membership base from the EETPU electricians' union.

Ucatt officials have been told to visit every job or site where the union has members over the next fortnight. A letter is to go out to all Ucatt's 250,000 or so members stressing that the union is still in business.

FT LAW REPORTS

Parent company gets group relief

J SAINSBURY PLC v O'CONNOR
Court of Appeal
(Lord Justice Lloyd, Lord Justice Nourse and Lord Justice Ralph Gibson):
May 22 1991

A PARENT company which grants an option to its joint venturer to buy 5 per cent of the shares in its 75 per cent-owned subsidiary, retains beneficial ownership in that 5 per cent while the option is unexercised and can therefore claim group relief on the subsidiary's trading losses, provided it is not bereft of all the benefits of ownership. And the option agreement is not an "arrangement" capable of depriving the parent of group relief if, though it affects rights of ownership, it does not affect rights attaching to the shares, such as the right to receive dividend if one is paid.

The Court of Appeal so held when dismissing an appeal by the *Inland Revenue* from Mr Justice Millett's decision that J Sainsbury plc was entitled to group relief in respect of trading losses of its subsidiary, Homebase *Ltd*.

LORD JUSTICE LLOYD said that in October 1978 Sainsbury negotiated with a Belgian company, GB-INNO-BM, to set up a joint venture company in the UK to develop a chain of home *improvement stores*.

The intention was that shares should be held 70 per cent by Sainsbury and 30 per cent by GB. But in August 1979 it was realised that Sainsbury would not be entitled to group relief under the Income and Corporation Taxes Act 1970 unless the new company were a 75 per cent subsidiary.

By way of solution Sainsbury agreed to subscribe 75 per *cent of the share capital and* GB 25 per cent. By a separate option agreement Sainsbury granted GB an option to pur*chase 5 per cent of the share* capital, not to be exercised within five years of incorporation of the new company.

The option was not exercised. The option agreement was cancelled in August 1985.

The issue was whether Sainsbury could claim group relief under section 258 of the 1970 Act.

Section 258 provided that relief for trading losses surrendered by one company in a group might be allowed to a *member of* the same *group*. Two companies were deemed to be members of a group if one was the 75 per cent subsidiary of the other.

By section 532 a body corporate was deemed a 75 per cent subsidiary of another if not *less than 75 per cent of its* ordinary share capital was owned by that other. Subsection (3) provided that "ownership" was to be construed as "beneficial ownership".

The first question was whether Sainsbury was "beneficial owner" of the whole of its 75 per cent holding, notwithstanding GB's option to purchase 5 per cent.

Mr Justice Millett answered *in favour of Sainsbury*.

The concept of beneficial ownership originated in Chancery. In *Ayerst [1976] AC 167,177*, Lord Diplock said the archetype was the trust, where "legal ownership" was in the trustee but he held for the ben*efit of beneficiaries. In Parway Estates 45 TC 135* Lord Justice Jenkins assimilated beneficial ownership with equitable ownership. In *I Congresso [1977] 3 WLR 778* Mr Justice Robert Goff held that "beneficially owned" in the case of a ship referred to equitable ownership.

So there was good authority for the view that "beneficial owner" of shares, when used in *a statute in contrast to the reg*istered holder, meant the equitable owner. By equitable owner was meant *inter alia* the *purchaser under a specifically* enforceable contract.

If that test were applied, GB was not equitable owner since it could not claim specific performance until it had exercised its option five years after incorporation, namely November 12 1984. It followed that equitable ownership in the 5 per cent *remained in Sainsbury. It was* difficult to see how equitable ownership could become severed from legal ownership unless it passed to somebody else.

If beneficial ownership meant equitable ownership for the purpose of the act and if equitable ownership had not yet passed to GB, Sainsbury never ceased to be beneficial owner.

But Mr Park *relied strongly* on *Wood Preservation Ltd v Prior (1968) 45 TC 112* which concerned a contract of sale containing a condition for the sole benefit of the purchaser, which he could therefore waive. It was held that the ven*dor did not remain beneficial* owner until the condition was withdrawn. He ceased to be beneficial owner when the contract was made.

Lord Donovan concluded it was possible for property to lack any beneficial owner for a time. Lord Justice Harman said that after accepting the offer the vendor was unable to deal with the property in any way and there was no benefit *in its ownership. He said* "it was a mere legal shell".

The court was bound by *Wood Preservation*.

It followed that the first *question* could *not* be decided on the straightforward ground that beneficial and equitable ownership were the same, and that since Sainsbury retained equitable title it was beneficial owner.

Instead the court must look *into the nature and extent of* the rights retained by Sainsbury in relation to the 5 per cent.

If Sainsbury were bereft of all rights which would normally attach to those shares so that ownership was nothing more than a "legal shell", then *the* court *would be bound to* hold that it was not beneficial owner, though rights which would normally attach to the shares had not yet passed to GB.

Mr Park submitted that that was the position. He relied on three factors.

First, Sainsbury had no right to dispose of its shares prior to November 12 1984 without GB's consent. Second, it had no expectation of dividend *prior to* November 12 1984, since payment was in Sainsbury's and GB's joint control, and GB would have been unlikely to agree *to payment* while its option remained outstanding. Third, the price at which GB was entitled to purchase the shares under the option was the amount paid up plus interest, less the amount of any dividend paid meanwhile. So if the *option had been* exercised Sainsbury would have been deprived of any increase in value of the shares. It would have accrued to GB.

The first two factors applied not only to the 5 per cent, but also to the remaining 70 per cent. It could not possibly be argued that Sainsbury was not beneficial owner of the 70 per cent.

The third factor made no dif*ference. The fact* that the amount of any dividend would have been deducted from the option price did not mean Sainsbury was not beneficially entitled to the dividend in the meantime.

Its rights in relation to the shares were more than a "mere legal shell". *Wood Preservation* did not apply.

The first question was answered in favour of Sainsbury.

The second question was *whether* the option agreement was an "arrangement" within the meaning of paragraph 5(3) of Schedule 12 of the Finance Act 1973. If so, Sainsbury would lose the benefit of group relief by virtue of section 28 of that act, which provided that for group relief to apply the parent must be beneficially entitled to 75 per cent of the subsidiary's dividends.

Paragraph 5(3) provided that if an equity-holder held shares in respect of which "arrangements" existed by virtue of which, in that or any subsequent accounting period, his entitlement to profits could be different to his entitlement if *effect* were not given to the arrangements, it was to be assumed that effect would be given to the arrangements in a later accounting period.

For paragraph 5 to operate the arrangement must affect rights attaching to the shares. The option agreement was an arrangement which could affect ownership, but it could not affect rights attaching to the shares.

The fact that those rights would have accrued to the benefit of GB and not Sainsbury if the call option had been exercised was beside the point. The paragraph was not concerned with a reduction in the overall right to dividend, but with the reduction in the right to dividend attaching to particular shares. That was the plain meaning of the words.

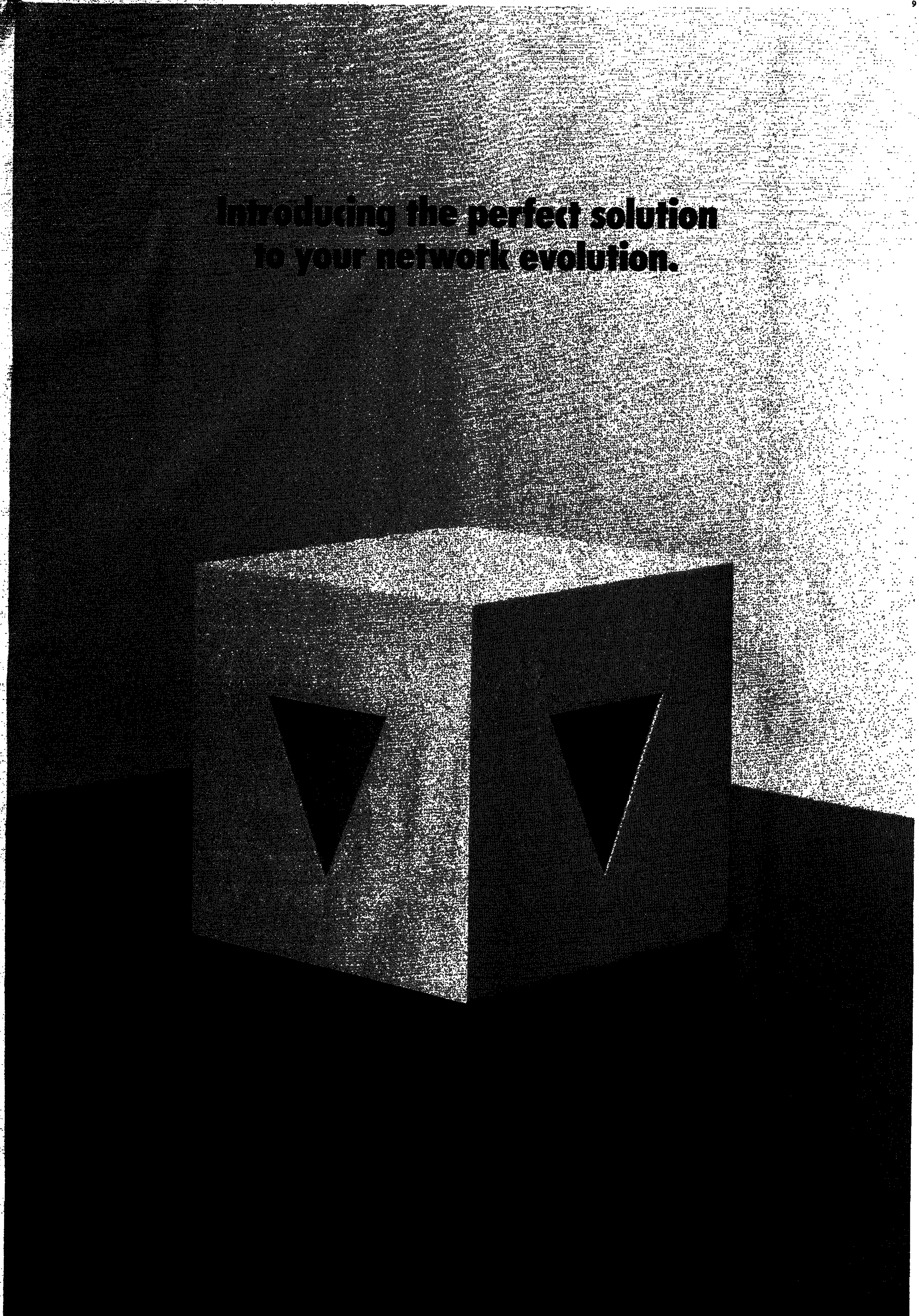
The second question was answered in favour of Sainsbury.

The appeal was dismissed.

Lord Justice Nourse gave a concurring judgment. Lord Justice Ralph Gibson agreed.

For the Revenue: Andrew Park QC and Launcelot Henderson (Inland Revenue solicitor).
For Sainsbury: Peter Whiteman QC and Brian Green (Denton Hall Burgin & Warrens).

Rachel Davies
Barrister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Metallgesellschaft

Time for a pause in a flurry of activity

The acquisitive German group is seeking to increase its technological base and its 'green' activities. Andrew Fisher reports

Life has become hectic at Metallgesellschaft, the once staid metals, mining, engineering, and chemicals group. No longer do executives hurry home to catch the early evening cocktail hour in the Taunus hills outside Frankfurt.

Setting the demanding pace is Heinz Schimmelbusch, a mercurial 46-year-old who became chief executive two years ago. While some managers may find his whirlwind energy and hard-driving style rather wearing, there is no doubt that his lively enthusiasm marks a refreshing and irreverent contrast to the cautious, understated style of most chief executives in Germany.

In recent weeks, Metallgesellschaft has bought the Zimmer chemical fibre plant manufacturer from Davy Corporation of the UK and helped to finalise plans for the clean-up and rehabilitation of a big slice of eastern Germany's polluted industrial landscape.

Along the way, Daimler-Benz snapped up 10 per cent of its shares when Dresdner Bank decided to reduce its holding to 13 per cent. This unexpected move by Germany's largest industrial group was a clear vote of confidence.

Nor was this latest flurry of activity anything new. Over the past year and a half, it has floated off a minority of its recycling subsidiary, Berzelius Umwelt-Service (BUS), raised BUS's stake in Horsehead Resource Development, a US recycling specialist, to 45 per cent, bought the Lentjes energy and environmental technology company, and lifted its holding in MIM Holdings, the Australian mining group, from 4 to 10 per cent.

There have been other deals, too, as Metallgesellschaft has sought to widen its technological base and give its "green" activities a stronger impetus. The Austrian-born Schimmelbusch expounds in an animated fashion about all of these moves, whether in his office or in his favourite Italian restaurant. He waves his arms in emphasis, jumps up from his chair to draw diagrams, and grins delightedly as he explains strategic highlights.

He becomes especially excited when the subject is the group's rapid growth in the fields of recycling and environmental clean-up or its plans in eastern Europe, where it has long-standing engineering and trading links, especially in the Soviet Union. Daimler's stake reflects its interest in both aspects; it wants closer access to car-recycling techniques and is keen to join in the conversion of Soviet defence industry plants to peaceful uses. (Another big shareholder is Kuwait with around 20 per cent.)

Heinz Schimmelbusch: a balance between collecting new poles and putting up a tent

When Schimmelbusch joined the board 10 years ago – he has been with the company for 20 years – Metallgesellschaft was a lacklustre collection of metal-processing plants, mines, and engineering operations which had fallen on hard times. It did well in the 1970s, but then made big losses in metals trading, manufacturing, and plant construction, and omitted dividends between 1982 and 1985.

Since then, Metallgesellschaft has shed loss-makers such as a big metal-forming plant in Frankfurt, streamlined and decentralised its management structure, developed its international links, and marketed its environmental know-how more aggressively. In its last financial year to September 30 1990, net profits jumped by 28 per cent to DM262m on virtually unchanged turnover of DM20bn.

Even Schimmelbusch thinks it is now time for Metallgesellschaft to take a breather. "You have to draw a balance between collecting new tent-poles and putting up the tent," he says. "There is a constant struggle to make acquisitions work; We are aware that we must be careful not to overstrain the company's ability to manage its operations." Thus he foresees greater short-term emphasis on project work and internal investment and less on acquisitions.

At the same time, he wants to be alert for new opportunities. The group was quick to snap up Zimmer when Davy's problems caused it to put it up for sale, along with Davy-Bamag, a builder of water and waste treatment plant. Metallgesellschaft bought both for around DM230m. They will fit in neatly with the activities of Lurgi, its big industrial plant manufacturer.

The way the Zimmer deal took place and the group's plans for its new acquisition neatly illustrate Schimmelbusch's way of doing business. Firstly, there was the speed of the transaction. Metallgesellschaft had had its eye on Zimmer, also based in Frankfurt, for some time. So when the opportunity came, it moved fast, edging out other interested companies.

In this Schimmelbusch was helped by the fact that he knew Sir Alistair Frame, the chairman of Davy, in his capacity as chairman of RTZ, the mining concern. Schimmelbusch's relatively high profile, compared with many of his counterparts in German industry, is to his advantage when trying to keep abreast of new opportunities. His open approach is also a legacy of the two years he spent in Wall Street investment houses, something the former economics teacher at Tübingen University insisted on when joining Metallgesellschaft.

"There are times when you want to work on the synergies from previous acquisitions," he says. "But when a company like Zimmer comes along, you have to take it, or else the competition will." Because Zimmer has a strong position in the market for chemical fibre plants, much of which is in the Far East, it will keep its identity within the group. Thus Zimmer, also involved in plastics recycling, will not be swallowed up by Lurgi, but become a separate unit in the subsidiary, keeping its own name and management.

Although Schimmelbusch has presided over a considerable expansion in Metallgesellschaft's core activities, he is wary of creating subsidiaries that are too big. "The optimum size of a manageable unit is much smaller than people think. Setting large monolithic organisations into motion and getting them to act entrepreneurially can be painful. You have to watch the limits of growth." Small businesses grow faster, he notes. "We are trying to simulate the entrepreneurial spirit of many small companies".

At the top of Metallgesellschaft are two central divisions. One is Lurgi which, with a turnover of DM1.8bn in 1989-90, forms the engineering services division. The other is trade and financial services which account for more than half of turnover and include dealing in ores, metals, and chemicals, as well as its bank, Metallbank; low metal prices and the low dollar hit profits of this division in the first half of 1990-91.

Below this level are eight operating sectors: BUS, Lentjes, Norddeutsche Affinerie (copper), Rheinische Zink (zinc), Lehnkering (transport), chemicals (Sachtleben Chemie and Chemetall), Kolbenschmidt (motor components), and Metall Mining Corporation (MMC). As well as BUS, both Kolbenschmidt and MMC are quoted companies, the latter in Toronto. MMC, which includes the group's US, Canadian, and other mining holdings, had a hard time last year as a result of low prices and smelter problems at Vancouver-based Cominco. Kolbenschmidt is also suffering lower profits in the chillier economic climate.

In the first half of this financial year, Metallgesellschaft's pre-tax profits were down by 28 per cent. "This is not surprising considering the general economic climate," Schimmelbusch calmly told the annual meeting. Analysts expect a much better second half, now the damaging effect of the Gulf war on economic confidence has receded. Even so, the downturn emphasises that the group is still vulnerable to metal prices, the vicissitudes of the mining industry, and adverse currency movements.

This makes it even keener to stress its "green" ambitions, something it does assiduously among the investment community. Although its BUS recycling operation is already a quoted company, it is still developing its activities, centring mainly on the reprocessing and resale of waste from steel and aluminium manufacture. Turnover should be around DM100m this year and grow sharply in future.

There are also considerable environmental activities in Lurgi, which plans to float off part of its environmental unit, Lurgi Umwelt-Beteiligungsgesellschaft (LUB).

Currently, LUB has DM200m worth of soil decontamination business. Jens-Peter Schaefer, Lurgi's chief executive and a Metallgesellschaft director, reckons LUB could be kept busy for the next 20 years with business in Germany alone, especially in the east. Lurgi and BUS will play important roles in the east German project at the metal-producing area of Mansfeld, which Schimmelbusch was instrumental in arranging with the Treuhand (the east German privatisation agency), the Bonn government, and the state of Saxony-Anhalt.

If this trail-breaking venture proceeds beyond the study stage, it could involve business worth DM1bn or more to Metallgesellschaft and its partners. Schimmelbusch does not want to go too quickly on this complex project, "otherwise it will become unmanageable and fall apart".

For Metallgesellschaft, Mansfeld would provide a ready-made site, something that would take years to get approved in west Germany. It would also draw on the group's full range of industrial skills and serve as a model for the reconstruction of other parts of east Germany and eastern Europe – something which really produces a gleam in Schimmelbusch's eyes.

One way to run a railway

By Christopher Lorenz

Imagine you have achieved every (middle-aged) schoolboy's dream: running your own railway.

It is a relatively simple set-up, with a single terminus at one end and separate branches to three destinations at the other. You operate a schedule with a train every two minutes, to each of the three destinations in turn, so that each is served every six minutes.

But your rolling stock is getting old and unreliable. A shortage of funds is forcing you to run the system without spare capacity. Some of your crews have a natural human habit of falling sick or arriving late for work. Overcrowding at several stations also tends to make trains run late, as do intermittent safety emergencies of various kinds.

As a result, there is a tendency for gaps to appear in your service – sometimes knocking-out, or delaying, up to five successive trains to one destination, so that passengers to it may be faced with a wait of well over half an hour.

What do you do?

The long-term solution is obviously to beg, borrow or earn more money to replace the trains and increase their number. But, even if you can raise those funds, you are left with an interim problem which will last several years.

The schoolboy answer to the immediate difficulty is pretty obvious: to run the system more flexibly, plugging big gaps in the service to one destination with a train originally bound for one of the others - and telling passengers why.

In real life, London Underground faces such problems frequently, to judge from first-hand experience, not merely on its most notorious service, the north-south Northern Line (known for decades to regular users as "the misery line"), but also on supposedly reliable routes such as the east-west District Line.

Sometimes the once hide-bound managers of the Underground seem to have learned to behave like schoolboys, and plug gaps in the obvious way described. But far too seldom.

When such manifest incompetence occurs so often, one must dispute the conclusion, which some people drew from last week's Monopolies and Mergers Commission report, that only more cash can really cure the erratic service from which London suffers. The Commission made 114 recommendations for various management improvements.

So long as the Underground continues to be under-funded – and for several years beyond, while the results of new investment come through – the solution must be to turn the problem into an opportunity: to abandon the pretence of normality and operate the service much more flexibly, as if abnormality was a common occurrence, or even the norm.

In the wider world of management, all sorts of organisation are learning to do this in the face of unstable environments of various kinds – regulatory, economic, competitive or even climatic.

A long way to go

This is no easy task in an organisation so relatively poorly skilled at all levels in the past as London Underground. For a more flexible approach to be both feasible and effective, without creating chaos, middle and junior management must be properly trained and then fully-empowered to take quick decisions at a low level, rather than still having to refer upwards in traditional public sector style.

The Underground has already taken a step in this direction by decentralising the management of its various lines. As the MMC report also pointed out, a "total quality management" programme is also starting to reach front-line staff. But the quality of "normal" service, let alone the response to "abnormal" problems, shows that there is still a long way to go.

If the Underground can respond to this challenge – and some of the decisions involved really are quite schoolboyish – then its customers will enjoy a much more reliable ride. And, who knows, the organisation could even become a management model for others to emulate.

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KPMG undertakes its own green audit

It is at first difficult to see the connection between the appearance of green bins in the London offices of KPMG Peat Marwick McLintock and the instruction from the firm's senior partner in charge of south-east England, Colin Sharman, that no memo may be issued on general circulation without permission.

Each represents part of the firm's two-pronged initiative to reduce paper consumption and recycle its waste paper.

These schemes were once the preserve of idiosyncratic businesses and voluntary organisations. But now bigger companies, including IBM, BT and British Gas, are recycling and conserving paper too.

Most do it as part of a commitment to improve their environmental performance – considered by most companies as a business necessity. KPMG has demonstrated that paper recycling schemes can both save and make money.

The programme, started as a pilot in August last year, now collects about 80 tonnes of high-grade white office paper from the firm's 4,000 employees located in seven London offices.

The paper scheme is part of the firm's Green Code, a policy designed to improve its environmental performance by reducing waste, cutting energy consumption, using environment-friendly products and reducing pollution from its vehicles.

While the code represents a genuine commitment to reducing its environmental impact, the firm's management consultancy now also offers an environmental service. Its success at achieving its own green targets is important to the marketing of this service.

Besides Sharman's directive on memos, other measures have been taken to reduce paper consumption. All papers prepared for the board are copied on both sides. Photocopiers capable of double-sided copying have been installed and these models will eventually replace most of single-sided copiers.

"There is a downside here," says Martin Houldin, who is in charge of green issues. "Double-sided copiers are mechanically more complicated and also take a longer time to produce copies."

Sharman has also instituted a "Friday Bulletin" on the computer network. This is an electronic newsletter delivered to computer screens. Most paper memos which used to be circulated to all the staff via the post room are now delivered electronically on the bulletin.

Sharman's commitment to the scheme has helped to drive it along. He has been known to call managers into his office to question the need to circulate some memos. "Most of what we do is by facilitation and demonstration," says Houldin.

Waste paper is deposited in special green plastic bags suspended on simple metal frames. Cleaners collect the bags when full and leave them for collection by Papercycle, a company contracted to remove it for recycling.

Papercycle offers a recycling consultancy and a free collection service for companies with sufficient volume. It makes its money by selling the paper on the scrap market. Because of KPMG's high volumes, Papercycle pays for the paper on a scale linked to the market price.

When the scheme began high-quality scrap paper was reaching about £40 a tonne. This has now dropped to about £20 a tonne, although Papercycle's managing director, Colin Crooks, expects the price to increase as the market for recycled paper improves.

Even with the current low prices for scrap, KPMG expects its scheme to break even within the next six months. All subsequent profits will be given to charity. But the firm is also expecting real savings from its moves to reduce the volume of paper used.

Houldin stresses that the success of these schemes depends on efficient organisation and a high awareness among staff. The aims of the scheme are communicated at staff meetings and through posters.

Sharman sees the process as evangelical. Although many staff are already keen to save and recycle paper, most start off as agnostics. A manager's job is to take them through the process of becoming converts and finally zealots. The zealots then continue the education process within the office, reducing management input.

Peter Knight

Clive Cookson reports on schemes to combat urban colour pollution

Goodbye to grey

Colour pollution is a term coming into vogue among landscape architects. It does not refer, as one might expect, to pollution of rivers and watercourses by dye and pigment manufacturing, but to the ill-considered use of colours on buildings. Most shopping streets in the industrialised world contain glaring examples – gaudy shop fronts clash with one another and overwhelm the traditional local environment.

"While most of us have welcomed the colour revolution that has followed the grey austerity of the post-war years, it is also to be deplored for the confused and meaningless messages it can sometimes convey," says Michael Lancaster, architect and colour specialist. "In this sense colour can be regarded as a potentially disruptive and polluting force."

The problem is a result of the explosion of synthetic colours produced by the chemicals industry. More than 3m colours have been synthesised and 9,000 are currently in production. Although the chemicals industry is indirectly responsible for colour pollution, it is also beginning to see the problem as a potential marketing opportunity.

Akzo, the international paint company based in the Netherlands, is leading the way. It is working with cities across Europe to develop "coherent colour palettes" for their buildings, based on local traditions.

Turin in Italy has the most extensive scheme, says Cees Groenewegen, special projects manager at the Sikkens Foundation, Akzo's colour research organisation. Over the last 10 years the owners of 10,000 buildings in Turin have agreed to follow the approved colour scheme. In exchange they receive a paint subsidy from the city government.

A large project is now under way in Barcelona, Spain. And Akzo is starting a slightly smaller colour scheme in Norwich, England.

The Barcelona project is focusing first on the Rambla, the city's promenade which the poet Garcia Lorca called "the most exciting street in the world." The excitement is still there – the Rambla is always thronged with people and cars – but time, pollution and tacky commercialisation have taken their toll. Most of the original colours have been lost.

Now a mixture of Catalonian pride and the imminence of the 1992 Olympic Games have prompted the city to restore the façades of the Rambla's 100-plus buildings to their former glory.

Research work started in 1989, as a co-operative effort involving Akzo, the city and several local architectural and art-historical bodies. The first phase was to collect detailed information about the way the Rambla used to look, from old drawings, early photographs, paintings, letters and accounts of early travellers; at the same time the existing façades were analysed to show what lay beneath the modern coatings.

After establishing the colours and textures appropriate to selected buildings, comprehensive elevations were created and coloured in to discover the overall effect on the Rambla. This procedure led to a recommended range of colours: 26 for stucco façades, 11 for those on which lime paints had been used, and seven for "sgraffito" (the technique in which layers of different coloured plaster are selectively removed to create a multi-coloured bas-relief effect). Most of the colours are in the yellow-brown-red range.

Work started on the Rambla's first five buildings in April and the city hopes to finish the work before the Olympics. It will then move beyond the Rambla to an ambitious scheme for most of the city.

The Norwich project is also starting with a small historic area – Elm Hill, which was founded by Dutch wool traders. Akzo worked with the city council to draw up a draft "palette for Norwich" which is now being applied to the 30 buildings of Elm Hill – all owned by the council.

The city expects to finish recolouring Elm Hill by the end of this year. It will then move on to Timber Hill, where council-owned property is being redeveloped with commercial developers.

In Elm Hill and Timber Hill the city can impose the palette as the owner of the properties. In the third area – around Norwich marketplace – it will have to persuade private owners to use the approved colours. "We're keen not to force anyone to use the colours or to use Akzo paints," says Tim Anderson, the city's information officer.

Eventually there will be a palette for the whole of Norwich, adapted to suit the historical character of each area. In Market Square neutral colours are favoured, to suit the classical architecture and to act as a backdrop for the strong colours of the market stalls. "In Elm Hill richer colours could be employed, especially in Tudor style," says Brian Robson, head of Akzo's UK colour design team.

As Robson observes, "a project of this nature must invariably go far beyond design elements. We become involved with social and political issues. We need to reconcile the often conflicting views of personal freedom and social obligation".

The philosophy behind the attack on colour pollution is summed up by the French colour theorist Jean Phillipe Lenclos: "If you want to paint the outside of your house, get your neighbour to choose the colours."

Chile puts a value on its waste water

By Leslie Crawford

Until recently, the waste water from copper mines was considered an ecological hazard. The water, used to sluice away thousands of tonnes of sterile rock after the red metal has been extracted, contains high concentrations of sulphates, molybdenum and copper. It is unsafe to drink, expensive to treat and generates by far the biggest disposal problem for mining companies concerned with the environment.

But a pioneer project in Chile has just won an American environmental award for showing that the waste water, known as tailings effluent, can be safely used to irrigate crops. It has channelled the waste water of El Teniente, the largest underground copper mine in the world, to transform the dry Caren Valley in central Chile into a verdant patchwork of fruit orchards and vegetable plots.

El Teniente, located high up in the Andes, processes about 100,000 tonnes of ore per day. There is no space in the mountains to store the waste rock (tailings) so it is mixed with water and slurried down the rugged terrain to a new dam in the Caren Valley.

Recycling the water is not possible because of the difference in height between the tailings dam and the mine. Nor is it feasible to treat the effluent, as the dam discharges the waste water at a rate of 1,500 litres per second.

Originally, the state copper corporation Codelco planned to release the waste water into a stream that flows into a large hydroelectric reservoir. But US environmental consultants Dames & Moore proposed a different solution: why not use the effluent for agriculture, transforming the waste water into a valuable resource for the barren valley?

Codelco was enthusiastic. It established a 10-hectare experimental farm with crops known to tolerate metals and sulphates. The original crops included alfalfa, wheat and corn, and the encouraging results prompted further trials with asparagus, beans, green peppers, onions, melons, nectarines and pears. Cattle, sheep and rabbits are also raised on the experimental farm.

Jaime Illanes, Dames & Moore's chief consultant in Chile, believes the Codelco project is the first scientific study into the use of untreated tailings effluent in agriculture. "All the products of the farm – milk, meat, fruit and vegetables – as well as the quality of the soil, are monitored for the concentration of metals," he says.

After four years, the results are encouraging. Only beans and chillies are not safe to eat. In other crops, the copper and molybdenum appears to concentrate in leaves and stalks, rather than in the edible parts.

The experimental farm earned Dames & Moore an Engineering Excellence Award from the Consulting Engineers Council of the state of Utah. After four years of rigorous quality control, Codelco is now ready to test productivity on a commercial scale at a larger estate in the Caren Valley.

"So far we have had very high yields with alfalfa, while other crops are growing normally," says Bartolome Alfaro, the environment control manager at Codelco's El Teniente division.

Alfaro is travelling to Europe this month to present the results of another novel environmental project: the reforestation of old tailings dams which had been previously considered too sterile and acid to bear plant life.

But after a 10-year effort, Alfaro has succeeded in creating a small forest in a section of the Cauquenes tailings dam. There are now 34 different kinds of trees, shrubs and grasses growing there – evergreen cypresses, eucalyptus, pine, rosemary bushes, acacias, as well as wheat and barley.

At first, careful irrigation and treatment of the soil was needed, but now Alfaro says that the 25-hectare site has developed an ecosystem of its own. "What we have been able to prove is that one can reforest almost any kind of tailings dam, even ones considered totally sterile," he says.

El Salvador, a Codelco copper mine in the Atacama desert, is now keen to start its own irrigation and reforestation schemes. Although El Salvador will have to find ways to counteract the extreme salinity of the desert soil, Alfaro says: "Nothing is impossible".

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Idomeneo

GLYNDEBOURNE

This season's *Idomeneo* at Glyndebourne is appropriately dedicated to the memory of the late Richard Lewis, the tenor surely more closely associated with the opera's title-role than any artist since Anton Raaff, for whom Mozart wrote it. Trevor Nunn's production of 1983 has been directed by *Stephen Rayne*. Graeme Jenkins conducts the London Philharmonic. As in *Death in Venice* he showes the knack, not possessed by every Glyndebourne conductor, of filling that tone-drier of a pit with warm, vital sound. He did this to grand effect on Monday in the first two acts. After the interval the drive sometimes slackened and, for example, Ilia's "Zeffiretti lusinghieri" and Arbace's big accompanied recitative were a shade too leisurely.

Keith Lewis, the new Idomeneo, pupil as well as near-namesake of his distinguished predecessor, is most promising. The wretched king's troubles are conveyed with natural dignity, the voice is clear, sweet and supple enough to bring off an ambitious cadenza in "Fuor del mar". Lewis did the abdication speech well enough to make one regret the absence of Idomeneo's final aria. He is matched by an Ilia of exceptional quality in Sylvia McNair, whose finely spun line is full of colour not least in the all-important recitatives. She moves with unusual grace. Her stillnesses are eloquent. Otherwise, apart from the sound High Priest (Kim Begley), Arbace (Robin Leggate) and Voice of Neptune (Peter Rose), the casting was uneven.

Mozart rewrote the part of Idamante the king's son (originally for male soprano) for a single, mainly amateur performance in Vienna. If he had been able to carry out his intention of a thorough revision giving the role of the king to a bass, the change would have worked better. As it is, the more I hear of tenor Idamantes, which Glyndebourne traditionally prefer, the more I long for mezzos. Four tenors in the last act is simply too much. John LaPierre's well-covered, rather sentimental college boy of a Cretan prince did not change my mind in spite of his agreeable timbre.

The Elettra, Stephanie Friede, also American and an experienced performer, projected an unsubtle view of the character. The dramatic first and last solos passed muster but, like many sopranos she was unhappy with the role's danger spot, the middle section of the *siciliana* chorus – a treacherous twenty bars needing perfect command of legato in the middle register. Though the full tension of the sacrifice scene has not yet been recaptured, the chorus was as lusty as ever.

Nunn's serious, carefully thought-out staging had real merits, yet it was a partial view of this many-layered, inexhaustible opera. Designed as a festive work, *Idomeneo* came out more than that, but the festive elements, the spectacle and the ballet (which *Mozart, who cut so much,* refused to leave out "because I love it so") must be represented. In the revised, murky lighting both set and costumes make a depressing contrast with the clean, singing colours of the Paris *Entführung* already described here. As for the two little dances we are allowed, their inclusion in a performance on this level is hard to credit.

Ronald Crichton

TELEVISION

The best of the bunch in Banff

The story so far: British programme makers entered 21.4 per cent of the 500 programmes at the 12th Banff Television Festival. Of the 159 programmes selected by the festival committee to put before the international jury, 32.4 per cent were British. When the jury announced the programmes they were shortlisting for prizes 47 per cent were British. Last week's column, written from inside the jury room, ended with the cliffhanger question: could the British sustain their seemingly inexorable progress and win more than 50 per cent of the prizes against competition from the rest of the world? Now read on.

Yes, they could. Not only did British programmes take the prize in six of the 10 categories, raising their success rate to 60 per cent, but the BBC's mini-series *Portrait Of A Marriage* then received the Grand Prize of the Festival, the one which is reported internationally and remembered in later years. Having already won the Grand Prize in 1982, 1985 and for the past three years consecutively, Britain now has a record of six, the next highest national total, Italy's, being two.

The category prize winners were:

Arts Documentaries: *Bookmark: From Moscow To Pietushki*, BBC, UK.

Children's Programmes: *The Little Kidnappers* Jones Maple Leaf Productions and CBC for the Disney Channel, Canada.

Comedy: *The Curse Of Mr Bean*, Tiger Television for Thames, UK.

Continuing Series: *Les Filles de Caleb*, Cité-Amérique with SRC, Canada.

Features: *Changing Step*, BBC Scotland, UK.

Mini Series: *Portrait Of A Marriage*, BBC with WGBH Boston and TV New Zealand, UK.

Performance Specials: *Memento*, Slovak TV Bratislava, Czechoslovakia.

Popular Science Programmes: *The Trials Of Life: Hunting And Escaping*, BBC Bristol, UK.

Short Dramas: *In The Border Country*, Little Bird Productions for Channel 4, UK.

Social And Political Documentaries: *The Civil War*, Florentine Films for PBS, US.

There were also two special jury prizes, the first of which we awarded to Canadian Joyce Borenstein for her enchanting and original use of animation in *The Colours Of My Father*; and the second to Tomas Dillen and Anders Ribbloe for the courage of their journalism in the Swedish documentary *The Law Of The Jungle* which enabled those involved in an appalling pattern of terrorism and virtual slavery in Brazil to tell their own story.

Two categories proved relatively easy to judge. In Children's Programmes our shortlist contained a moral tale from Canada called *Maggie's Secret* which sought to lighten the load on teenagers saddled with alcoholic parents; the acting was fine but the script sounded like something concocted by a committee of psychologists. There was also *Ralph S. Mouse* from the US, using splendid technique to mix live action and animation, but with a surprisingly boring story. So Canada's glossy 94-minute movie, *The Little Kidnappers*, starring Charlton Heston in a period costume drama about two young Scottish orphans and their puritanical grandfather in Nova Scotia, pretty well selected itself.

Comedy was also comparatively straightforward. Three of our four short-listed contenders were British: *Hale And Pace*; *A Night On Mount Edna*, one of the outrageous Edna Everage chat shows; and *Mr Bean*. The other finalist was an extraordinary Australian programme called *The Money Or The Gun: International Year Of The Patronising Bastard* which challenged public embarrassment and condescension in dealing with the disabled by subjecting them to as much ridicule as anybody else. Though we admired its courage most of us on the jury felt it odd to categorise this as a comedy. As it was, Rowan Atkinson's latterday Harold Lloyd character, Mr Bean, with his silent comedy routines, walked away with the award. It is difficult to believe this was the funniest programme on British television in the past 12 months, never mind in the world, but seven viewers of different nationalities could, and did, watch and laugh simultaneously.

In the other categories there was considerable agonising over the winners. For example in Features, while many of us admired Canada's bittersweet prairie love story, *Getting Married In Buffalo Jump*, some felt it was flawed by script anomalies; and although we were deeply impressed by Germany's technically superb Simenon mystery, *Another Lover*, several of us suspected the surface concealed a lack of depth. But then the BBC's odd story of limbless servicemen and class divisions in Edwardian Scotland, *Changing Step*, could hardly be described as flawless; it suffers from several longeurs. Was it really the best of the bunch? After much discussion we decided it was.

In Social And Political Documentaries there were differences between those who felt that heart should count as much as head, and who wanted to give the prize to Canada's *Born In Africa* about a popular singer dying of Aids, or to Sweden's *Law Of The Jungle* about terrorism in Brazil, and those like me who argued that *The Civil War* was by far the most outstanding example of documentary programme making, however conventional, with its masterly use of photographs, old letters, music and sound effects, and virtually demanded the award.

Perhaps our least difficult decision was to give the Grand Prize to *Portrait Of A Marriage*. In an odd way the BBC was almost at an advantage here in dealing with such an obviously difficult topic (Vita Sackville West's lesbian love affair). Having avoided the pitfalls of crassness on the one hand and exploitation on the other, all the BBC's strengths came into play: script by Penelope Mortimer, wonderful acting from Janet McTeer and Cathryn Harrison, and rightness in all the details from locations to costumes.

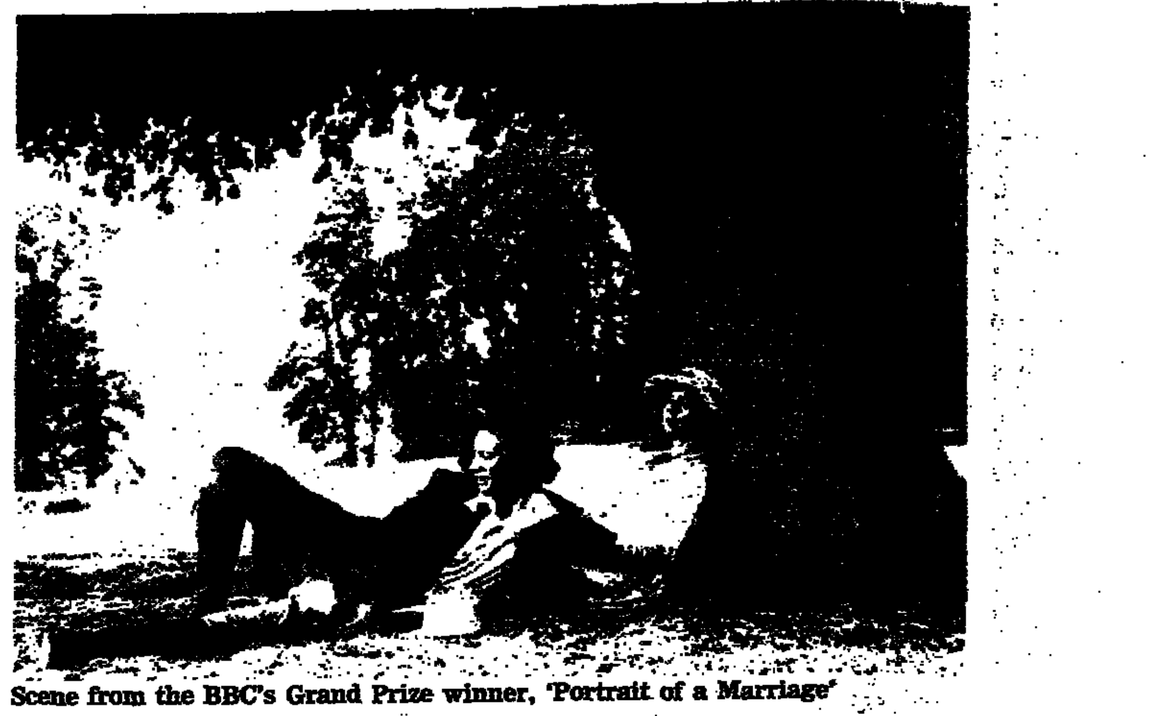
With British programme makers dominating the prize categories in such an extraordinary way, are we obliged to concede to our more gung-ho broadcasters and politicians that British television is the best in the world?

It is not necessarily so. Festivals such as Banff concentrate on specific programme categories. There are no prizes here for news, current affairs, sport, game shows or soap operas. Perhaps those are all done better elsewhere, though experience suggests otherwise. Furthermore, however hard the organisers may strain to avoid it (and Canadians with the Québecois factor try harder than most) these occasions are decidedly Anglophone: English is becoming as much the international *lingua franca* of television as it is of medicine or air traffic control; but maybe Chinese television is, secretly, the best in the world. Then again, maybe not.

These are, anyway, pretty weak arguments. We expect to judge a medium of expression by its highest forms, not by its mass popular aspects: nobody ever suggested the the literature of country X was great thanks to the standards of its magazines or the art of country Y especially notable because of its splendid postcards. So drama and documentary, arts and science programmes must, of course, loom large in the estimation of television quality. That being so, British programmes – judging by their unparalleled success in the past nine months at the Prix Italia (the most important in Europe), the Reims Festival, and now Banff (the most important in North America) – can indeed claim a very high ranking.

The strength of British television is brought home to you dramatically when you watch two editions of Anglia's *Survival*, first Alan Root's "Here Be Dragons" with its astounding sequence of a crocodile catching a wildebeeste, and then "The Secret World Of Bats" with similarly amazing photography, and you think "Well nothing can possibly beat *those*". Then you watch *Trials Of Life* featuring the marauding killer whales of Patagonia, snatching sealion pups off the beach, and realise how wrong you were. Finally you register that this, too, is a British programme, and it becomes very difficult indeed to deny that Britain does, truly, make outstanding television.

Christopher Dunkley



Scene from the BBC's Grand Prize winner, 'Portrait of a Marriage'

Intermezzo

KAMMERSPIELE, HAMBURG

Ask for theatrical nostalgia and, before you can say *fin de siècle*, the British will mount Oscar Wilde or J.M. Barrie, the French will come up with *Cyrano* and the Germans will trumpet Arthur Schnitzler, as decorous as the best of them but distinctly teutonic in his choice of kicks: not class or romance but sex in the head. Freudian intuitions – Schnitzler and Freud were friends – unconscious motivations. Catch these nerve strains, and a Schnitzler production can seem up-to-date and challenging: lose them in mannered comedy and you have a period piece of stylish but empty charm.

Hamburg has the latter. "I have a certain respect for people who go to the theatre in summer," says a character in *Intermezzo*, to the cheers of a flattered audience. Gerd Bockmann pinpoints the summery mood with birdsong, piano tinkling in the conservatory, the patter of an evening shower, as the lights go on in the music room. Women, long-necked and confident, float in like swans; men answer, like willowy reeds, graceful, accommodating, fatally lacking backbone. Oh, those decadent Viennese! Each glance and cadence exchanged between composer Amadeus (Peter Sattmann) and his opera-singer wife, Cecilia (Birgit Doll), has the delicacy and poise we associate with the time and place, and since the characters are intent on a self-conscious choreography of their own lives, Bockmann's production is not without psychological sense.

The trouble is that the psychology never develops. Amadeus lives and lives to avoid greeting boredom face-to-face; Cecilia fancies creative fulfillment; and both believe in their cooly planned open marriage. Illuminations of their debate. In a liberal marriage liberating for men and unliberating for women? How narrowly is each sex locked within his or her gender vision? Schnitzler's pet subjects are still being discussed today, but not on the Hamburg stage.

As the second-best ideals collapse, but here the finely agonised monologue, the screeching marital row, are stifled within one of the most conservative, stagey stagings I have seen in Germany.

Elbows rest on piano-tops, tunes stop mid-crescendo, characters storm out of doors and turn back, just when you expect them to, cigarettes are noisily rolled and lit and sighingly smoked. Busts of Beethoven, Wagner and others tower over the action: between them, a space is left, presumably for Amadeus' own marble head to join them. Sattmann is suitably self-important as the composer; Ms Doll returns his patronising tolerance with gushy politesse. He was loosely based on Mahler, she on Schnitzler's wife, Olga, and there's a tantalising hint of eroticism and yearning, that echo of Klimt and Mahler that Schnitzler always suggests in these performances, but mostly Sattmann and Doll pause and pose and pace up and down without shedding light on the personal impact of their debate.

Jackie Wullschläger

Cops

GREENWICH THEATRE

Mark Baker's book, *Cops*, is a chillingly effective journalistic antidote to the media's anodysed images of police enacting issues of the day in 30-minute chunks of prime time TV. It is chilling not simply in its unsparing presentation of the first-hand experience of policing New York, but in its portrayal of an ordinary workforce employed in the extraordinary work of maintaining a pretence of civilisation in streets far meaner than most of us could imagine them to be. Using bullets of anecdote, loosely grouped into areas of experience, Baker conveys the variety of lives with common threads of fear and alienation from the ordinary realities of even their own families. There is no dramatisation beyond the stories themselves, and no authorial presence beyond the inevitable editing and ordering of the material.

Bill Bryden's adaptation bravely and disastrously attempts to do the same on stage. Seven cops, seen in police car, locker-room or bowling alley, regale each other with experiences which range from levering a crazed nymphomaniac off her dog to retrieving the skewered body of a child from a tree. Their anger and their paranoia point to the single concession to plot, which is the shooting of two of their number for no better reason than that they patrolled the wrong place at the wrong time. It was all too grim for Outraged of Kent, who stomped noisily out of the first night and will no doubt shower the theatre with protests about obscenity.

The basic problem, though, is not the grisliness of language or description but the failure of the show as documentary theatre. The most obvious manifestation of this is Bryden's decision to represent the New York police force as all male. OK, so *Cagney and Lacy are out, but the absence* of women from the beat leaves as fundamental a gap as would have yawned had Bryden decided to cast the force as all white. Even a token presence would have complicated the sexist banter, just as Ricco Ross's portrayal of a smart black cop bruises his colleagues' dismissal of blacks as "seagulls" (they shout all night, squawk all day, shit on everybody and are protected by the federal government.)

However hard Bryden and his co-director Sebastian Graham-Jones have tried to give the unvarnished truth, the demands of staging have left them with a handful of characters shaped by a particular collection of experiences - from Tony Haygarth's maudlin belief in domestic morality to Gary Love's emotional attempts to describe the indescribable aftermath of a road smash. Inevitably, perhaps, the play lacks the book's panoramic sweep, while at the same time denying itself a full dramatic life.

Claire Armitstead

Japan in Aldeburgh

SNAPE CONCERT HALL

This is an East-meets-West double bill: first a traditional Noh-play, *Sumidagawa*, played by a troupe from Osaka, and then the Britten "church parable" it inspired – his 1964 *Curlew River* – sung in English by the Hayashi Company, with British instrumentalists led by Steuart Bedford. (Praiseworthy sponsorship for the former by the Great Britain-Sasakawa Foundation, and by Sanyo for the latter.) Excellently bold idea, in principle; in practice certainly "interesting" but a long slog, and not very moving. The aesthetic stage-traditions of East and West don't meet easily.

In Tokyo in 1956, *Sumidagawa* made a crucial impression upon Britten, who went on to write a trilogy of "church parables" on this model. Its story is stark and simple: a mother deranged by grief (and played by a male actor) crosses a river by ferryboat to find her lost son's grave. By prayers she conjures up his spirit; but she cannot touch him, and at dawn he vanishes. Though the idea of writing a drag-role for Peter Pears in the mode of elevated tragedy may have counted for something, what struck Britten most was the stripped-down manner: stillness and dignity without any by-play, impersonal chanting, sober rhetoric in a loose frame without harmonic structure, accompanied only by an expressive flute and punctuating drums.

It's obvious enough why the theatrical style should have seemed an astringent revelation in the 1950s and early '60s. *Transplanted to Aldeburgh* in the 1990s, however – long after the stylistic lesson has become familiar everywhere – *Sumidagawa* is just foreign and very, very long, even in this politely condensed version. All that rigorous plainness is in honour of the Japanese verse, which we don't understand; the force and subtlety of the declamation remain matters for conjecture. To ignorant Western ears it seems uniformly *molto vibrato*, intense and strangulated. It might be great poetry – or, equally, Victorian melodrama.

Though the seasoned skill of the troupe isn't in doubt, we recognise it at a cool arm's-length distance. We can see that Yasutaka Izumi's Madwoman is a virtuoso model of slow-motion minimalism, and the secret of Buddhist monks sounds sternly humane. The one direct, piercing voice that needs no translation is Kenzo Akai's haunting flute, but it falls silent (like the drums) for the central duologue of Madwoman and sage Traveller, where we are back with opaque, foreign, singsong verse – far more foreign than, say, any Racine *tirade*, in which the "natural" dramatic inflections should be palpable even to non-French-speaking Europeans.

The loyal Hayashi performance of *Curlew River* does Britten *no favours. Their* English is surprisingly good and sometimes clear, with the bonus of forthright delivery innocent of British-ecclesiastical tones (which were endemic among Britten's own chosen voices). The band is first-class, with inspired moments from Sebastian Bell's flute and Richard Watkins' superlatively staunch horn. What we notice most, however – because she isn't there – is Britten's pathos-laden Madwoman. Though Tadashi Hosokawa sings her expertly and musically, he also makes us realise how much the role depends upon affecting Western nuances. For all I know, he may wring Japanese withers to the point of unbridled tears; but to a Western ear he sounds like an light, uncomplicated character-tenor, and his extrovert gestures suggest melodrama rather than numb grief.

That isn't a complaint, but only an observation about how place-bound the sense of human gestures is – and no less, it seems, the sense of Britten's dramatic writing for voice. It presupposes unwritten *mores*; if the tenor can't mesmerise himself against our local dramatic conventions he won't wrench our hearts, for the literal music doesn't tell him precisely enough how to do a Peter Pears. Hosokawa has distinguished support nonetheless from Makoto Nadai as the wise Abbot, and from Tetsuji Yoneda's rude Ferryman. We miss only the sense of real, irrecoverable loss.

The spectre of the lost 12-year-old son is carried over from *Sumidagawa*: a very small boy, in white grave-clothes and a great black mane (standard Japanese iconography for the restless dead), has here an offstage treble voice, too uncertain to make its due effect. His doomed reunion with Mother is a tame event, and the new idea – that it should restore "her" to pious sanity – is barely signalled. Japanese eyes and ears may respond differently, but I doubt that ours will. Britten's ultra-professional music needs a kiss of raw life which never comes.

David Murray

INTERNATIONAL

ARTS GUIDE

TODAY'S EVENTS

AMSTERDAM

Muziektheater 20.00 Glen Wilson conducts Pierre Audi's production of Monteverdi's Il ritorno d'Ulisse in patria, with Anthony Rolfe *Johnson as Ulisse and Graciela* Araya as Penelope, also Fri and Sun. Tomorrow: Frans Brüggen conducts Idomeneo (6255 455)

■ BARCELONA

Gran Teatre del Liceu 21.00 Francisco Araiza, accompanied by Jean Lemaire, sings Die schöne Müllerin (412 1466)

■ BERLIN

Komische Oper 19.30 Ballet gala with extracts from La Sylphide, Swan Lake, Romeo and Juliet and others. Tomorrow and Sat: Tom Schilling's ballet Les Contes d'Hoffmann (2292 555)
Staatsoper unter den Linden 19.00 *Fabio Luisi conducts Die* Zauberflöte. Fri: Reiner Goldberg sings Max in Der Freischütz. Sat: Tristan und Isolde. Sun: Madama Butterfly (2004 762)
Deutsche Oper 19.00 Giacomo Aragall sings title role in John *Dew's production of Faust, with* Inga Nielsen as Marguerite. Fri: Il trovatore. Sat: Giselle. Sun: Franz Welser-Moest conducts Jean-Louis Martinoty's new production of La clemenza di Tito (3410 249)

■ BOLOGNA

Teatro Communale 20.30 Gustav *Kuhn conducts Lorenzo Arruga's* Italian-language production of Die Zauberflöte, also Fri and Sun. Tomorrow: Daniele Gatti conducts Strauss, Berg and Marco Tutino (529999)

■ BONN

Oper 20.00 Michael Boder conducts Jean-Claude Riber's production of Pelléas et Mélisande, with Malcolm Walker and Angela Maria Blasi in title roles, Jean-Philippe Courtis as Arkel and Jean-Philippe Lafont as Golaud, also Sun. Tomorrow: Youri Vamos' production of Swan Lake (773667)

■ CHICAGO

Orchestra Hall 20.00 Gunter Wand conducts Chicago Symphony Orhestra in Schubert's Eighth and Ninth symphonies. Repeated *tomorrow and on Fri at 13.30 (435* 6666)

■ LONDON

MUSIC AND DANCE
Covent Garden 20.00 Royal Ballet triple bill: Nijinska's *Les Biches* and Les Noces, plus Ashton's Scenes de ballet. Repeated tomorrow and Fri (240 1066)
Coliseum 19.00 Josephine Barstow sings Katerina in revival of David Pountney's production of Lady Macbeth of Mtsensk, conducted by Mark Elder. Warren Ellsworth sings Sergei and Willard White is Boris. Also Fri (836 3161)
Queen Elizabeth Hall 19.45 Christopher Warren-Green is violin soloist and conductor in a programme of French music with the London Chamber Orchestra. Tomorrow: Sir Arthur Bliss centenary concert. Sat: Chelsea Opera Group perform Puccini's La Rondine (928 8800)
Barbican 19.00 Bramwell Tovey conducts London Symphony Orchestra in final concert of the 1991 Shell-LSO music scholarship for brass, in which six regional finalists perform solos and concerto movements (638 8891)
Guildhall School of Music 19.00 *Last performance of Patrick Libby's* production of Delius' one-act opera Margot La Rouge and Poulenc's surreal comic fantasy Les Mamelles de Tiresias (638 8891)
THEATRE
Musicals: Joseph and the Amazing *Technicolour Dreamcoat, one of* the early fruits of the Andrew Lloyd Webber/Tim Rice partnership, is revived tonight at the London *Palladium in a production directed* by Stephen Pimlott, with a cast led by Jason Donovan. Tango Argentina at the Aldwych is a stylish, sultry and energetic song and dance show, built exclusively around the tango. Oscar Hammerstein's classic musical The King and I has been revived at Sadler's Wells for a limited run, *starring Susan Hampshire and* David Yip. At the Vaudeville, Dora Bryan stars in 70 Girls 70, a musical by Kander and Ebb, the writers of Cabaret and New York, New York. This is a West End premiere, and a transfer of last year's successful Chichester Festival production. Previews this week, with press night next Mon. Phone Theatreline: Plays 0836 430959 Musicals 0836 430960 Comedies 0836 430961 Thrillers 0836 430962

■ GOTHENBURG

Konserthuset *19.30 Hannu Koivula* conducts Gothenburg Symphony Orchestra in a programme including Tchaikovsky's Serenade for Strings and Ernst Krenek's Organ Concerto, with soloist Karin Andersson (167000)

■ MADRID

Auditorio Nacional de Musica 19.30 *Frank-Peter Zimmermann,* accompanied by Alexander Lonquich, plays Mozart violin sonatas (337 0100)

■ NEW YORK

MUSIC AND DANCE
Metropolitan Opera 20.00 American Ballet Theatre triple bill, including Swan Lake Act II. Tomorrow, Fri and Sat: Vladimir Vasiliev's staging of Don Quixote (362 6000)
New York State Theater 20.00 NY City Ballet in a Balanchine triple bill. Tomorrow: Balanchine's Jewels (870 5570)
Avery Fisher Hall 20.00 Andre Previn conducts Brahms' Academic Festival overture and Mozart's Symphony No 39, with Andre Watts *soloist in Previn's Piano Concerto.* Also tomorrow, Fri and Sat (875 5030)
THEATRE
More Off Broadway: The Hunchback of Notre Dame is Everett Quinton's quasi-musical *retelling of Victor Hugo's gothic* tale of the bell-ringer, the gypsy he loves and the evil archdeacon (Charles Ludlam, One Sheridan Square, tel 691 2271). Jungle of Cities is Brecht's play, translated by Anselm Hollo, set in Chicago in 1912, where the main combatants fight to prove who's the better man (Theater-Studio, *750 Eighth Avenue, tel 719 0500).* Pageant is a beauty contest, where judges are selected from the audience to vote for Miss Glamouresse, in a show conceived, directed and choreographed by Robert Longbottom (Blue Angel, 323 West Forty-fourth Street, tel 262 3333). The Substance of Fire is Jon Robin Baitz's witty and intelligent play telling of the *struggle between an old-world* father and his American children for control of their family-owned publishing house (Mainstage, 416 West Forty-second Street, tel 279 4200). For Broadway shows, Ticketron answers inquiries and sells tickets (246 0102)

■ PARIS

Palais Garnier 19.30 Last performance this season of Opéra Ballet production of A Midsummer Night's Dream choreographed by John Neumeier, music by Mendelssohn and Ligeti (4742 5371)
Théâtre de la Ville 20.30 Tanztheater Wuppertal opens a two-week season with Pina Bausch's latest work, Palermo Palermo (4274 2277)
Salle Gaveau 20.30 Paul Badura-Skoda gives the first of four recitals devoted to Mozart's piano sonatas. Next recital on Fri (4027 8017)

■ VIENNA

Theater an der Wien 19.00 Donald Runnicles conducts Achim Freyer's *Hamburg production of Die* Zauberflöte, with Kurt Moll as Sarastro, Kurt Streit as Tamino, Dawn Upshaw as Pamina and *Mikael Melbye as Papageno.* Repeated on Fri and Sun (586 1676)
Staatsoper 20.00 Michael Schoenwandt conducts Harry Kupfer's production of Elektra, with Eva Marton in title role, Brigitte Fassbaender as Klytemnestra and *Elisabeth Connell as Chrysotemis,* also Sun. Fri: Ariadne auf Naxos. Sat: Arabella (51444 2960)
Musikverein 19.30 Young conductors' concert with Tonkunstler Orchestra. Sat at 15.30 and Sun at 11.00: Daniel Barenboim conducts Vienna Philharmonic Orchestra in a Mozart and Bruckner programme. (505 8190)
Konzerthaus 19.30 Michael Gielen *conducts Austrian Radio Symphony* Orchestra in a programme including Mozart's Missa Solemnis. Tomorrow: Theodor Guschlbauer conducts Haydn, Schubert, Berg, Webern. (7124 6860)

■ ZURICH

Tonhalle 20.15 Hiroshi Wakasugi conducts Tonhalle Orchestra in Mahler's Ninth Symphony, Wakasugi's farewell performance as music director of the Tonhalle. *Fri: final of 1991 Geza Anda Piano* Competition (201 1580)
Opernhaus 19.30 John Cage's music-theatre extravaganza Europeras 1 & 2, also Fri and Sat. Tomorrow and Sun: ballets by Pierre Wyss and Uwe Scholz (251 0909)

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0800-0830 Moneyline
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1330-1400 Business Day
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Wednesday June 12 1991

A Russian leader

THE CITIZENS of Russia today begin to take the largest step towards political freedom that they have been allowed in their history. The six years of Mr Gorbachev have yielded great rewards for the world, but it has taken a crude blunderbuss, Mr Boris Yeltsin, to force an opening for democratic advance which has a good chance of being institutionalised.

The six men from whom the Russians must choose range from the doubtful to the laughable. But they are the first not to be seeking hegemony through butchery, treachery, the will of God or the logic of history. This fact alone is worth a celebration.

It is also worth emphasising that it is not only the first step, but one into a morass. The new president will make an oath, under the law which governs his office, to "protect the rights and freedoms of man and citizen", but he will rule in a country still not sure of either its human or civic rights. He will dominate a Supreme Soviet in which there are no clearly defined parties and no clearly defined programmes: where the judiciary is weak and generally craven; where declarations, laws and pledges are rarely matched by action; where the institutions remain those of a communist power without the convictions which used at least to make things happen, but with the reflexes which stop them happening.

Historic trust

And if, as expected, the citizens choose to repose this historic trust in Mr Yeltsin, these problems will be compounded by the complex politics and personality of this driven man. There was no need for Pravda this week to wheel out three professors of psychiatry – a profession with a dubious past in the Soviet Union – to say that Mr Yeltsin was power hungry. It has long been clear that he is a man to whom power is a necessary part of life and who is able to wield it ruthlessly.

That may become important and alarming. But for now of greater importance is the fact that he has had to base his search for power upon the choice of the people, since the other source – the Communist party – had thrown him out of its inner councils into the kind of padded sinecure from which cirrhosis of the liver is generally the only exit. Mr Yeltsin's many and obvious faults, however, cannot conceal one fundamental virtue: he may have stumbled on democracy but he has stayed on its path. The Russian people must ensure that he does not stray from it.

Important tasks

Whoever does take the presidency must quickly make clear what he will do in three areas. First, he must engage with Mr Mikhail Gorbachev, the Soviet president, and with leaders of the other republics, in a final effort to devise an economic plan for the Soviet Union and a union treaty for those who wish to be part of it. Posturing will be a luxury, as at least Mr Yeltsin seems already to have realised. The declining power of Soviet communism can be confronted only at peril of civil disorder, and thus must be compromised away – as it was in Hungary, Poland and Czechoslovakia, which offer much better models than Romania.

Second, on coming into the legacy of increased economic power which he will undoubtedly receive, the new president must both proclaim his adherence to the creation of a market economy (as Mr Yeltsin has done many times) and stick to it (which he has not). The imperative is transparency of decision-making as between the centre and the republic, and then resolute pursuit of those goals – such as privatisation – which are urgent.

Finally, he must nurse democracy into life as tenderly as any babushka tending a sickly grandchild. He must encourage the development of parties, even those hostile to himself; encourage a judiciary and a media with their own codes of justice and truth, not beholden to him; and allow the government he appoints to work without constantly trumping its actions with a populist joker. A large agenda for any president: vast for the six ill-qualified men whose political fate is being decided today. Yet this is a great day for the Russians. Ideals can come alive in the voting booths of the Soviet Union.

Capitalism and the saver

The Share Ownership Movement, a new independent body which is to take over from the Wider Share Ownership Council in the autumn, has got off to a shaky start. Although it has received backing from the stock exchange and the government it has failed to attract the degree of financial support its sponsors, who include Sir Peter Thompson and Sir John Harvey-Jones, have been expecting from private industry.

Inevitably this raises questions about the SOM's likely future success in promoting direct participation by individuals in the stock market. It faces a changing political climate with the possible accession to power of a Labour government over the next year. Is popular capitalism, a phrase coined by Mr Nigel Lawson when he introduced personal equity plans, another part of the Thatcherite baggage of the 1980s which the Conservatives should abandon?

In fact the arguments for spreading ownership of companies through the population have always been strong. If capitalism is to be successful it is essential that people at large should see benefits from healthy profits as well as from rising wages. But there must be serious doubts about whether the Tories have gone about it the right way, by encouraging individual amateur punters to hold penny packets of shares, without proper regard to the skills needed to manage portfolios properly or the financial infrastructure required to render small portfolios economic.

Conservative promotion

The government blames the stock exchange for dragging its feet, especially over the Taurus electronic settlement system, and Mr Norman Lamont is now attempting to promote an alternative high street distribution network by offering interested financial retailers a deal over the forthcoming British Telecom share sale. But the Conservatives have never looked really courageous about promoting a shareowning culture. The government may be putting up £250,000 a year to help get the SOM off the ground, but the heavy fiscal discrimination against direct share ownership remains in place (apart from PEPs) and the advantages of the pension funds have been almost untouched.

Over the past three decades about a third of the equity capital of British quoted companies has been channelled into these extraordinarily remote and opaque funds. Not only has has this concentration of ownership created a barrier between the broader population and the stock market, but there have been increasing problems of corporate governance because the pension fund managers have failed to accept their full responsibilities of ownership.

Company caution

In fact the main reason for the increase of interest by companies in promoting wider share ownership, leading to the establishment of the CBI's Wider Share Ownership Task Force, headed by Sir Peter Thompson, in early 1990, lay in the wave of hostile takeover bids in the late 1980s. The thought was that private shareholders might be more loyal than fickle pension fund managers. But in 1991, with the threat of takeovers greatly reduced, and industry severely stretched for resources, companies are declining to back the SOM with hard cash on any significant scale.

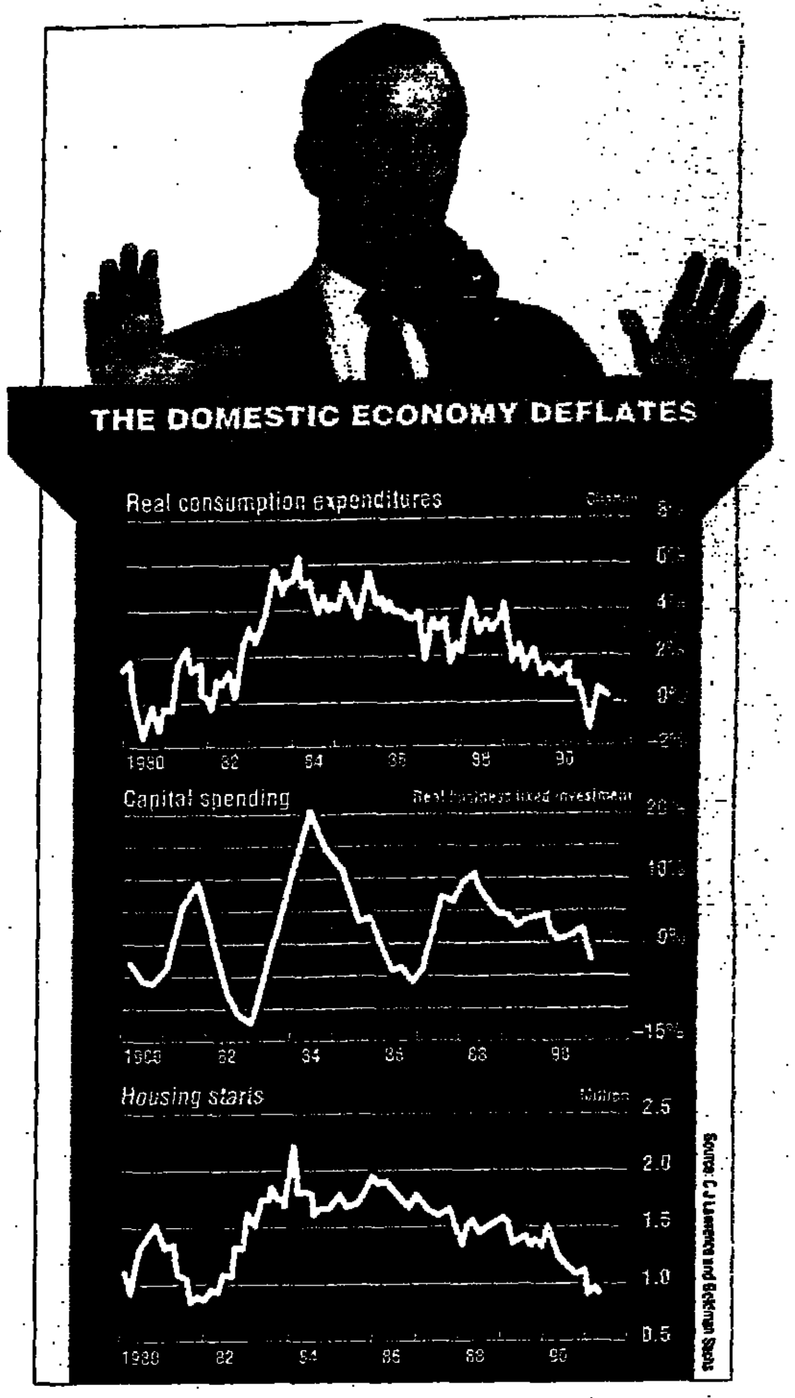
For the government, the way ahead may be to tackle the problem of institutional concentration. There may be no harm at all in encouraging an enthusiastic minority of investors to become active shareholders. For the bulk of savers, however, the institutional route is the appropriate one.

So it is time for the government to stop treating unit trusts and investment trusts as the poor relations of the equity market. As for pension funds, and the with profits funds of life insurance companies, the aim must be to make them much more transparent so that the millions of beneficiaries can be made more clearly aware of how closely their fortunes are linked to the health of the corporate sector.

In pursuing the goal of wider ownership the Conservative government has largely lost sight of the need for wider understanding.

America's upturn is likely to be one of the weakest on record, says **Michael Prowse**

Lingering doubts about US recovery



In purely economic terms, the Bush presidency has been a disappointment for most Americans. The annual rate of growth has not exceeded 1.7 per cent in any quarter since Mr George Bush's inauguration early in 1989. That is far below the trend of about 3 per cent established during the Reagan years. Since last July, when the US's ninth recession since the second world war began, output has fallen.

The White House and most private sector economists are confident that the recession is now bottoming out. The bad news is that the Mr Bush will continue to score low economic grades: the upturn looks set to be one of the weakest in recent US history.

Total output has typically expanded by more than 6 per cent in the first year of recovery from post-war recessions. This time, growth is unlikely to exceed 3-4 per cent and could be as low as 2 per cent. A "double dip" in which the economy slips back into recession after a period of sluggish growth should not be ruled out.

The recession that began last July is best understood as part of a prolonged adjustment to the epic imbalances created by the defence build-up, tax cuts and financial deregulation of the first Reagan term. These led to record budget and trade deficits and unprecedented levels of personal and corporate debt. The remedy that has been applied for several years is a gradual deflation of domestic demand.

Personal consumption began to fall in real terms only in the final quarter of last year. But growth of personal spending has been declining since the mid-1980s. Housing starts peaked at nearly double their current rate in 1986. The growth of capital spending, negative in the first quarter, has been declining since 1988, partly because of the loss of fiscal privileges in the 1986 tax reforms.

The prolonged domestic slowdown reflects several interacting forces:

● An attempt to reorient the economy away from domestic consumption and towards production for export markets. The trigger was the unsustainable rise in the current account deficit, which peaked at $162bn in 1987. The means was an unprecedented devaluation of the dollar since 1985. Its trade-weighted fall of more than 50 per cent in the past six years has sharply squeezed US consumers' purchasing power while significantly improving US industry's overseas competitiveness.

The share of exports in GNP has risen sharply; and, thanks partly to recession and lower oil prices, the trade and current account deficits are shrinking rapidly.

● A parallel, if less successful, attempt to curb the federal budget deficit. The combination of recession, American participation in the Gulf war and the costs of the savings and loan bail-out will push the budget deficit to a record $275bn or so this fiscal year. But the headline total obscures modest progress towards fiscal rectitude. Salomon Brothers, the US investment bank, calculates that the cyclically-adjusted "core" deficit, which excludes these special factors, fell from a post-war peak of 4.4 per cent of GNP in 1986 to about 2.8 per cent last year. It is likely to decline by another half percentage point this year as a result of tax increases and spending cuts agreed at last autumn's budget agreement.

● Progressively tighter restraints on money and credit growth. Since 1987, annual growth of M2, a broad measure of money, has averaged only 3-5 per cent, much less than the 9-12 per cent growth typical of the early and mid-1980s. Private-sector credit demands have dropped like a stone – from 15 per cent of GNP to about 5 per cent. The squeeze was partly unintended, reflecting financial distress within an over-extended banking sector and the increased zeal of bank regulators. Last year, as banks sought to rebuild capital ratios by imposing tighter conditions for loans, restraint turned into a full-blown "credit crunch" in which even credit-worthy borrowers were denied funds.

But the monetary squeeze, if not the crunch, also reflected the determination of many Fed policy-makers to reduce America's core inflation rate below 5 per cent by gradually reining back monetary growth. That policy is currently on hold and it remains to be seen whether past restraint will curb inflation during the recovery.

● The impact of debt. Spending has been constrained by soaring debt service burdens in all sectors. The total debt of households, businesses and all levels of government rose from $4,000bn in 1980 to nearly $11,000bn last year – a per capita real increase of nearly 60 per cent. Much of the debt financed current consumption and a variety of uneconomic investments, such as commercial real estate – much of which remains vacant. In effect, the baby boom generation of the 1980s demanded – and enjoyed – a standard of living that far exceeded the US's ability to produce goods and services. The costs will be borne well into the 1990s.

These longer-term forces helped shape a recession unique in recent US history. This downturn was not prompted by a sudden fiscal or monetary crackdown to curb inflation but rather by a gradual ebbing of corporate profit margins, disposable income and consumer purchasing power. Manufacturing companies, for example, began cutting employment more than a year before the recession proper began. Then, last autumn, the shock of higher oil prices, following Iraq's invasion of Kuwait, knocked consumer and corporate confidence, prompting a much faster shake-out.

If consensus forecasts prove accurate, the recession will be of roughly normal length, lasting slightly less than a year. The peak-to-trough decline in GNP will be just over 1 per cent, considerably less than the average fall of nearly 2¾ per cent. But, as Morgan Stanley, the New York investment banking firm, points out, the anatomy of the recession will be distinctly untypical.

Personal consumption usually acts as a cushion, growing modestly through the downturn; this time it has accounted for 70 per cent of the decline in activity. External trade usually offers little support; this time net exports have added the equivalent of a percentage point of GNP, off-setting weak consumer spending, and masking the severity of the domestic downturn. Cuts in inventories also appear to be playing a less decisive role due to better corporate stock control techniques. The recession, in other words, reflected an intensification of existing trends, which favoured a shift of resources away from consumers and towards exports.

The recovery is likely to be weak mainly because the "deflation" course prescribed for the excesses of the 1980s is far from complete. Indeed the gloomiest interpretation of the recent signs of an upturn is that only the shock of the Gulf war has been absorbed, leaving the economy on its prior path of gentle deflation. An added worry is that export growth, which is already flagging, may grind to a halt as growth slows in continental Europe and other markets. Spending cuts by near bankrupt state and local governments may also retard recovery in some regions.

The scale of any upturn will thus depend heavily on the private sector's ability to sort out its problems. In theory a "Germanic recovery" in which falling domestic inflation prompts a decline in long bond yields and a sustained revival of business investment is feasible. But with domestic demand likely to remain weak – and with international prospects uncertain – this would require US business to adopt an unusually long-term horizon. A weak and short-lived recovery is only too likely.

Why caution is advisable

In four of the last seven US recessions, forecasters have been thrown off track by "false dawns": periods in which gross national product has risen before resuming its fall, writes Michael Prowse. So it would be unwise to regard recent positive signals as proof that the economy is turning around.

The outlook, however, does look brighter than even a fortnight ago. On Friday, the Labour Department reported that employment rose by 59,000 in May – the first increase for nearly a year. This was a tiny increase in an economy that generates nearly 109m jobs and one that could be erased by data revisions. But it was a ray of light after six months in which monthly job falls have averaged more than 200,000. It also tallied with other labour market indicators: initial claims for unemployment insurance, for example, have been falling since late March.

A surge in the arcane-sounding Purchasing Managers' Index also whetted appetites last week. The index, based on a survey of purchasing executives in 300 US companies, is one of the most timely and reliable indicators of the strength of order books and production. Having risen steadily since January, the index last month crossed a threshold that historically has signalled economic expansion rather than contraction. The improvement followed a small rise in industrial production in April (which is certain to be bettered in May) and the first rise in factory orders since October.

A Commerce Department survey indicating that companies plan to increase investment by 3 per cent in real terms this year rounded off a good week. Economic bulls will interpret this latest data as merely bolstering previous signs of incipient recovery. The housing market, for example, has been recovering in fits and starts since January. Retail sales and consumer spending started to revive in February. Analysts say higher employment in May and a longer work week should translate into higher personal incomes and consumption during the summer.

All told, say optimists, a recovery about now would correlate well with past precedents. Share prices, a reliable forward indicator, began leaping ahead early in the New Year. At the same time, sharp cuts in interest rates prompted a modest recovery of monetary growth, which was stagnant in the second half of last year. The composite index of leading indicators registered its third successive rise in April. A run of three increases has always previously signalled recovery. It leads recoveries on average by about five months, again suggesting a May recovery.

But caution remains advisable. Most of the indicators are signalling at best only the preliminary stages of an upturn. The charts mostly show tiny gains after months – sometimes years – of steady decline. Housing starts, for example, are up 14 per cent from January's trough, but still down 40 per cent from the already depressed levels of the late 1980s; durable goods orders are 11 per cent below their peak; industrial production is down 5 per cent; employment is still more than 1.5m below pre-recession levels.

The still-uncertain outlook for the US consumer is perhaps the strongest ground for reserving judgment. Higher spending in the spring was partly at the expense of a slumping savings rate, which fell to 3.6 per cent of disposable incomes, the lowest level in any post-war recession. Consumer confidence fell in both April and May, suggesting that euphoria following the Gulf war has evaporated. Car sales, a crucial barometer of sentiment, have been consistently disappointing: an upturn towards the end of May left sales still far below the level that would indicate a vigorous consumer revival.

Recent encouraging data is thus suggestive of a short-term economic rebound, but is still inconclusive.

Busman's lolly day

■ Hong Kong entrepreneur Tsui Tsin Tong, who has given his money and name to the new gallery of Chinese art at London's Victoria and Albert museum, is one of those fairy tale figures hard-up curators must dream about.

When he first turned up unannounced in 1979 asking to see the museum's collection of Chinese art, most of it blushed unseen in a dingy basement because of a chronic lack of space. Tsui was not impressed. Today, 12 years and £1.2m later, he will be at the opening by Prince Charles of the gallery now housing the collection.

To listen to Tsui's well-oiled publicity machine he is one of Hong Kong's best-known philanthropists and has growing links with the UK. His Citibus operations in the colony already provide plenty of orders for Leyland and he has just won from London Regional Transport a franchise to operate Ensign bus services to mystical destinations like Romford and Dagenham.

Apart from making London's buses run on time, he is one of many being tipped as a potential future chief executive of Hong Kong when it reverts to China in 1997.

But the UK antiques trade is unsure what to make of him. The latest edition of The Antique Collector dredges up some of his less savoury connections, accusing him of using great art to raise his "business and cultural profile".

Funny how "old" money seems immune from such comments – good luck to you, T. T. Tsui.

Ebbing tide

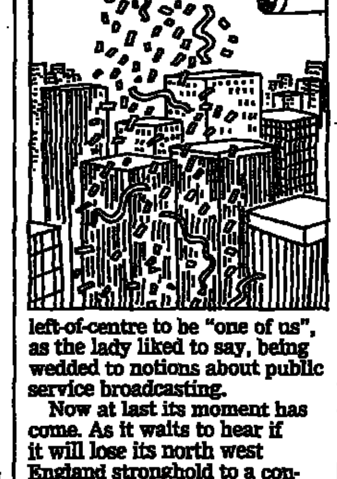
■ As perhaps befits a country with a socialist president, France will soon be the only foreign power officially represented in Britain's erstwhile important port of Liverpool. Germany is closing its consulate there – the only other one remaining of 15 a few years ago – and setting up instead 30 miles away in Manchester.

German ambassador Baron von Richthofen will hold a reception tonight to open the new premises – a suite of offices behind newly installed bullet-proof glass in what used to be Greater Manchester's County Hall.

The consulate is headed by career diplomat Franz Joseph Goldschmitt who stresses that the reason for the move is Liverpool's decline as a port, not the almighty mess the city has got into. The shipping documents that once dominated the consulate's work now account for only 1 per cent of same.

The significance for Liverpool, however, is that there is now one less influential group of foreign emissaries working there to put the city's worsening image abroad into a fairer context.

OBSERVER



Punchy

■ What's more, yesterday's occupation of Liverpool council offices may make it inevitable that the coming contest to fill Eric Heffer's parliamentary seat there will be dubbed the "GBH by-election".

Indeed I fear the new Channel 4 drama series about similar metaphorical gross bodily harming in a fictional northern city - not Liverpool, of course – is destined for such over-exposure in the press that readers will be yearning for the Darling Buds of May.

Air waves

■ Meanwhile, when it came to influencing the Thatcher government's broadcasting bill, Granada Television didn't have much clout. It was too left-of-centre to be "one of us", as the lady liked to say, being wedded to notions about public service broadcasting.

Now at last its moment has come. As it waits to hear if it will lose its north west England stronghold to a consortium led by Phil Redmond's Mersey Television, Granada has been asked to help the Czechoslovak government with the drafting of broadcasting legislation.

One thing seems sure. Granada won't be advising that Czech commercial television licences should ultimately go to the highest bidder – the process now under way in the UK.

Happy landing

■ One has to admire Britain's determination to be first back into Kuwait in as many different ways as possible following the the Gulf war.

Michael Weston was the first ambassador to return to his mission (he borrowed a helicopter). John Major, the first foreign leader, arrived almost before there were any Kuwaitis to meet him. Now British Airways has notched up the first post-war scheduled flight of a non-Gulf airline.

But it wasn't the first since the Iraqi invasion. That dubious honour went not to yesterday's BA115, but to the ill-fated BA149, which landed a good two hours after Saddam's forces went in.

A colleague who was on both flights reports a great improvement in service. Last time, on BA149, the plane was late... and his suitcase went missing even before the Iraqis appeared at the airport.

Hard luck story

■ London's Hard Rock Cafe, a global pioneer of marketing an image rather than food, celebrated its 20th anniversary yesterday by charging 1971 prices for a day. The restaurant chain, owned by Rank Organisation, now makes almost as much from T-shirts as from hamburgers.

But one thing has not changed in Piccadilly. Rain or shine, there's always a queue outside, and that's not by chance. If demand flags, tables are shut down until a line of customers again snakes down the pavement.

Unhappy

■ If you think that trade awards are a doubtful honour your suspicions will be confirmed by the latest survey on the quality of service offered by life companies.

The annual Sherwood-Money Week award for service excellence has been carried off by Scottish Amicable in both the life and pensions categories, and by Scottish Life in the mortgages section.

But wait a minute, a similar survey of quality of service published in April by the Alexander Consulting Group, a large firm of intermediaries, showed that out of 35 life companies Scottish Amicable came 30th and Scottish Life 34th.

Perhaps the Scots are not amicable enough to everybody.

LETTERS

Interest subsidy would blunt competition

From Mr William Drake.

Sir, Mr Baldwin urges consideration (Letters, June 8) for a new credit institution to lend at preferential rates to selected businesses with up to £200m annual turnover.

The proposed margin of half a percentage point above Libor cannot be achieved without subsidy, yet it is not clear who should finance this, or why. It will certainly help the privileged companies which gain access to lower borrowing rates, but it is hard to see how it will help the economy.

Small and medium-sized companies are vital to Britain's economy and their prosperity is essential to economic recovery. Those not qualifying for preferential rates will suffer a considerable handicap. This cannot be right.

The UK has a market infrastructure in place which is capable of matching demand for and supply of capital, whether in the form of equity or capital. Investors and lenders exercise their own judgment of the proposals put to them. We may need some improvement in the quality of the presentation and the evaluation, but intervention in the form of subsidies will only blunt our competitive edge.

William Drake,
Granville & Co,
Mint House,
77 Mansell Street E1 8AF

Labour party policy for labour law and the minimum wage

From Mr Tony Blair MP.

Sir, Your editorial of June 3 ("Labour's labour market") contained many inaccuracies in respect of the Labour party's policies, particularly on labour law and the minimum wage. Let me deal with the most obvious.

On labour law, we have already made it clear that the new industrial court will be a division of the High Court – there will therefore be appeals on a point of law in exactly the same way as the present employment appeal tribunal. It will have the full power to fine those in contempt of court and to ensure the fines are paid and to prevent a law breaker using its funds to commit a breach of the law. All this has been made clear many times.

As for the legal right to recognition, it really is absurd to say the purpose of this is "to compensate for unions failure on recruitment".

It is the precise opposite. It is a right, contingent on the free choice of the individual not the union. The right is to be exercised where the unions have recruited successfully but the employer refuses, irrespective of the degree of union membership, to allow the employees the right to be represented by the union where they wish to be.

At the moment, the only recourse of the union member is industrial action. Our desire is to substitute a proper legal framework for the anarchy of industrial conflict.

On the minimum wage, the editorial becomes incoherent. It attacks the notion of a low wage economy, rightly says that the demand for unskilled labour is falling but then decries a policy designed to ensure that competition is better targeted on skill and productivity rather than miserable rates of pay.

The economic purpose of a minimum wage, which should be taken together with other labour market strategies on training and personal development, is, as in other countries, to prevent employers undercutting each other on the basis of very low rates of pay, which does no good at all to the long-term future of the economy.

It is precisely for this reason that many employers oppose the abolition of the wages councils.

We will introduce the minimum wage at £3.40 per hour, which is 50 per cent of average male median earnings, rising when, and only when, prudent to 66 per cent. The US is now raising its minimum wage levels. The most recent study by the OECD into France found no employment impact through introducing a minimum wage, contrary to your assertion. It will not apply to youth trainees, so the primary grounds for your attack, both in this and your education editorial, are false. And finally, the minimum wage is not some pay-back to the unions, as you suggest.

In fact, it is most needed in the non-unionised private sector where employees have least bargaining strength, and are therefore dependent on the law rather than unions to protect them.

Tony Blair,
House of Commons,
Westminster, SW1

Institutes ready for audit regulation

From Mr Ian R McNeill.

Sir, David Waller's report, "Touche urges audit regulation review" (June 7), was incomplete.

From 1987, the three Institutes of Chartered Accountants undertook extensive consultation exercises among their firms about a future system of audit regulation based on proposals from the DTI. The exercise showed very strong support by firms for the institutes undertaking the regulatory role. As a consequence, members of this institute voted formally in June 1990 by a majority of 98 per cent for the institute to apply for powers under the Companies Act 1989 to regulate audit.

Also in 1990, a leading firm of City solicitors undertook a review of the institute's disciplinary and regulatory systems to check that they complied with the institute's obligations under various acts of parliament, including the Companies Act; that they afforded the minimum likelihood of legal challenge; and that they were even-handed between complainant and member.

With a few minor exceptions, the system received a clean bill of health. Those exceptions were dealt with in resolutions put to members earlier this month. They voted for relevant improvements to our professional conduct arrangements by a majority of 95 per cent.

The institute is now fully ready to make audit regulation work effectively and impartially in the public interest, and in the long-term interest of the profession. The new system of audit regulation developed with the DTI will, however, only be implemented in the autumn. It may well need to be modified in the light of experience. But a review now of the whole philosophy behind the Companies Act would be a certain recipe for a delay of at least two years before alternative legislation could be introduced.

Ian R NcNeill,
president,
Institute of Chartered Accountants,
Chartered Accountants' Hall,
Moorgate Place, EC2

Fax service

LETTERS may be faxed on 071-873 5938. They should be clearly typed and not hand-written. Please set fax machine for fine resolution.

Equality of opportunity

From Glyn Saunders.

Sir, Mr W.R. Kaye's letter (June 10) concerning the absence of women on the board of Royal Dutch begs the question in stating that, "no doubt Royal Dutch would include a woman if there was one more competent than any of the present members". Even if it was not intended to say that a woman would have to be more competent than *all* the other male members to earn a place on the board, it is precisely because such doubt exists that the continuing vigilance of people such as Inga Haag (Letters, June 3) is essential to the achievement of genuine equality of opportunity.

Glyn Saunders,
15 The Crescent,
Belmont, Surrey

Compelling case for a social security pension age of 70

From Mr Ralph Instone.

Sir, If the new health strategy (Leader, June 6) achieves a significant reduction in premature deaths, the increased cost of state-provided pensions and geriatric care will be huge. In order to mitigate the growing burden of these on present and future taxpayers, is there not a compelling case for raising the pensionable ages for social security pensions? To avoid undue disappointment for those now nearing pensionable age, it should be enacted that as from, say, April 1994, the existing ages will be raised by one year per annum for new pensioners until they reach 70 for both men and women. This might even encourage them to adopt healthier lifestyles.

Ralph Instone,
7 New Square,
Lincoln's Inn, WC2

Why Mexico should be seen as attractive to international investors

From Mr Carlos Alberto Gonzalez.

Sir, It is laudable that Damian Fraser should attempt the task of tackling the complex problem of weighing the pros and cons of a North American Free Trade Agreement ("Peril and potential south of Rio Grande", June 3).

However, he misleadingly states in his article that capital will only flow into Mexico in the form of direct foreign investment "... given that international banks are unlikely to resume lending to Mexico for some time, after their bruising experience in the debt crisis".

Though this may be true in the case of some Latin American countries, it can no longer be said of Chile, Mexico and Venezuela. On the date that Mr Fraser's article was published, two Mexican borrowers successfully tapped the international markets and this was reported by Tracy Corrigan in the FT the following day.

These two transactions are just the latest in a series of Mexican issues that have recently come to the market. Though a large portion of such bonds and notes end up in the hands of corporations, insurance companies, pension funds and private investors, international banks are increasingly taking Mexican exposure on to their books, albeit in modest amounts and on a case-by-case basis.

Admittedly, one swallow *doesn't make a summer.* However, Mexico's rewards for good behaviour, even if they are initially on a small scale, deserve to be acknowledged and publicised. The dramatic decline during the last 12 months in yields on Mexican public-sector securities (from about 12 per cent to under 10 per cent per annum) attests to the remarkable recovery of the Mexican economy and reflects the fact that the market is confident that – as Mr Fraser points out – Mexico stands to benefit enormously from this unprecedented negotiation with the United States.

Carlos Alberto Gonzalez,
Unibank plc,
107 Cheapside, EC3

PERSONAL VIEW

Brussels needs fast-track authority for Uruguay Round

By Jeffrey Schott

WHEN leaders of the G7 group of leading industrial countries convene for the London economic summit next month, they will again face the problem that made their corresponding summit last year so unproductive: how to resolve the impasse over agriculture and thereby reinvigorate the Uruguay Round of the Gatt negotiations.

Failure to improve upon their 1990 farm accord, which quickly came unstuck and contributed to the breakdown of the Brussels ministerial meeting last December, would leave the Gatt talks adrift and the summit leaders with little meaningful to say about trade.

Why all the fuss about agriculture, which accounts for only 12 per cent of world trade? Simply put, agriculture is the linchpin of the Uruguay Round. It is not the most important issue in itself, but reforms in agriculture are needed to balance concessions in other areas so that agreements can be reached across the broad range of the Uruguay Round agenda.

A compromise solution to the agricultural impasse is not too difficult to conceive: almost all Gatt members are likely to accept an outcome that reduces agricultural supports on the order of magnitude presented in Brussels by Mr Mats Hellstrom, Sweden's agricultural minister. The problem is one of political process: how to get from here to there.

US and European negotiators in the Gatt have been encumbered by their unique and bifurcated political processes. In the US, the separation of powers between Congress and the executive branch complicates trade strategies on amendment and renegotiation; by contrast, in parliamentary systems ratification is generally guaranteed by the ruling party. Fast-track authority, which requires that legislation implementing trade pacts be voted by Congress as a package without amendment and within a short time period, was introduced at the start of the Tokyo Round of the Gatt talks in the early 1970s to level the intergovernmental playing field – with the recent vote in Congress to extend fast-track authority until 1993, the US is now ready to pursue the final stage of negotiations in the Uruguay Round.

EC negotiators face a different problem. Unlike their US counterparts, the European Commission negotiators do not work for elected officials; their negotiating mandate derives from the Council of Ministers representing the 12 member states of the European Community. By the time the community has hammered out a negotiating mandate for the Commission to pursue in Geneva, EC negotiators are left little room to compromise with other Gatt members lest they risk unravelling hard-fought internal EC compromises. Council mandates thus seem to set a ceiling for EC positions.

While the charge that the EC's trading partners are presented with a *fait accompli* is exaggerated, the EC process poses a threat to the negotiations that in many respects is comparable to what would exist if the US did not have fast-track authority.

Fast-track allows US negotiators to go to Geneva and work out the best deal possible, and then bring it home with a reasonable expectation of approval by Congress. The EC process assures approval, but at the cost of negotiating flexibility – and thus complicates the task of crafting any type of agreement in the Gatt.

The EC problem is most evident in the case of agriculture, where both EC foreign and agricultural ministers and Commission officials cannot even agree among themselves on proposals to reform the Common Agricultural Policy, much less engage in substantive negotiations with other countries. Because of internal disputes between the directorate-generals for external relations and agriculture and their ministerial masters, EC negotiators have been kept on such a short leash in Geneva that the Gatt talks have barely got past the shouting stage.

If substantive negotiations on agriculture are to proceed fast enough to accomplish the goal of completing the Uruguay Round by the end of 1991, community negotiators will need a *modus vivendi* similar to the US fast-track authority to help resolve the impasse between the Commission and member states. To that end, EC negotiators should be freed from the constraints of the current negotiating mandate on agriculture and simply told to get the best deal possible. When the final package of agreements is presented to the Council of Ministers at the conclusion of the Round, EC officials can then decide if the results justify their support.

This procedure would effectively give EC negotiators fast-track authority for agriculture – *and increase the chances for a successful outcome to the talks.*

To be sure, a fast-track solution would reopen the basic debate over the separation of powers between the supranational authorities in the community. Obviously, this fundamental issue cannot be resolved in the time-frame of the Uruguay Round. But a limited trial for agricultural negotiations would be more manageable, and could prove instructive for future deliberations on the broader political question facing the EC.

The author is a research fellow at the Institute for International Economics in Washington, and editor of Completing the Uruguay Round (1990), published by the Institute for International Economics.

Edward Mortimer

Give Yeltsin a chance

The attempt to reform Russia may well fail; at least let it not fail through western indifference

FOREIGN AFFAIRS

Should the "domestic agenda" now come first? Should there be a "grand bargain" between the west and the Soviet Union? Those were the two main questions debated by the 79th American Assembly, which met recently at Arden House, New York, for the purpose of "rethinking America's security".

You have not heard of the American Assembly? Neither, I must admit, had I, until I was invited to attend it. It is a sort of quango, set up by Eisenhower in 1950. It "holds non-partisan meetings and publishes authoritative books to illuminate issues of US policy".

The fact that humble for*eigners such as myself* are invited to take part in these gatherings of the great and the good helps, I think, to explain the success of the US as a hegemonic power. The harder they work you at drafting and redrafting reports, the more you become convinced of your own importance, and the more you find yourself identifying with the consensus which the drafts are supposed to embody. The high point for me came when a text I had drafted on "America's role in the new international order" was criticised, by an American, for its "excessive triumphalism".

If triumphalism was not in order, it was not because Americans have lost their belief in "the need for Ameri*can leadership". Of that* the Gulf war has convinced them more than ever. On the contrary, the assembly feared that if domestic problems went unaddressed, America's "capacity to take necessary actions internationally would, over time, diminish". Yet it remains true that this mood, which mingles relief at "the end of communism and the rise of democracy" abroad with anxiety about declining standards at home, is not helpful to people who want the west to make a bold and imaginative commitment to the transformation of the Soviet Union.

Those people were well represented at Arden House. Our "programme director" was Mr Graham Allison, the leader of the Harvard team which has been working with the Soviet economist Mr Grigory Yavlinsky on the latest radical plan to integrate the Soviet Union into the world economy. Mr Yavlinsky himself addressed the assembly on its first evening, before being whisked away to a meeting at the White House. Later he returned to Arden House and spent the remainder of the weekend struggling to get the plan ready for presentation to President Mikhail Gorbachev. This arrangement enabled Mr Allison to shuttle back and forth between supervising the salvation of the Soviet economy on the one hand and supervising the rethinking of America's security on the other.

Also present was Mr Robert Blackwill, another member of the Harvard team and co-author with Mr Allison of an article entitled "America's stake in the Soviet future", in the new issue of Foreign Affairs. This time last year Mr Blackwill was a senior adviser on Soviet affairs to Mr George Bush. He would certainly be *the last man to fall for* any Soviet soft-soaping: I remember trying in vain to convince him, in 1988, that there were real signs of change in Soviet policy in the third world. Yet here he was pleading the cause of the "grand bargain", and now it was his turn to be frustrated by the caution and scepticism of his colleagues in the "security community".

If the proposition were to give a blank cheque to Mr Gorbachev such scepticism would certainly be in order. No one in their senses imagines that Soviet economic problems can be cured simply by injecting large sums of money, still less by strengthening the present Soviet administration, whose reflexes are still those of a totalitarian state and whose idea of price reform is to issue a new scale of pre-determined prices. But that is emphatically not what the Allison-Blackwill-Yavlinsky team proposes.

They do propose that the G7 group of leading industrial countries, at its July summit, should offer "substantial financial assistance": \$15bn to \$20bn per year for the next three years, the cost to be shared between the US, Europe and Japan. This would not go in one lump sum to the central government, but would be divided between the centre and the republics. Some would go for general balance of payments support; some would be for developing infrastructure; and some would provide "an adequate safety net as part of a general 'conditionality programme' that followed basic IMF-World Bank principles".

It is very much in western interests that the changes should take a democratic form. Spending money cannot guarantee that; handing over money in advance might even guarantee the opposite

Special status for the Soviet Union in the IMF and World Bank would enable those institutions to lay down the economic conditions for such assistance – the essence of which would be a transition to *a real market economy, and* one element in which would be sharp reductions in fiscal and monetary deficits, to be achieved by cutting defence spending as well as subsidies to state enterprises. I should guess that the US would also insist on a full cut-off of aid to Cuba and Vietnam.

But there would be political conditions too. Mr Allison and Mr Blackwill stipulate negotiations with the Baltic states, allowing independence as an outcome, plus a reaffirmation by "Soviet authorities at all levels" of "their international commitment to respect human rights of individuals within the Soviet Union whatever their national, ethnic or religious identification". They also call for "the sustained development of Soviet democratic institutions", for which the west should provide the "infrastructure" in the form of printing presses, computers etc.

They draw the line, however, at "universal self-determination", recalling the precedent of the US's own civil war and the dangers to US interests if the Soviet Union were to disintegrate in violence. Personally I would put the emphasis on avoiding violence rather than on maintaining the Soviet Union's territorial integrity. I can see no western interest that would be harmed by Georgian or Ukrainian independence, if achieved in a peaceful and orderly manner, and certainly none that would be served by encouraging the central authorities to think that violent suppression of such separatism could be carried out with western support.

But on their main point the *Harvard enthusiasts* are surely right. The Soviet communist system is clearly collapsing, come what may. It is very much in western interests that this historic change should take a peaceful and democratic form. Spending money cannot guarantee that, and handing over money in advance might even guarantee the opposite. But those who are attempting to steer the change in this direction do need encouragement, and if the attempt is made seriously money will certainly be needed to alleviate the immediate hardship involved, perhaps even to prevent complete economic collapse with widespread starvation and attendant violence. The sums of money suggested are *small in western terms* – about 0.1 per cent of the industrial world's gross national product, and for most western countries much less than they can save through defence cuts if the experiment succeeds.

Such a conditional offer does not amount to "helping Gorbachev", unless perhaps it helps him to come off the fence at last on the side of democracy and the market. It should be seen as helping those in Russia, and the other republics, who are determined to attempt the transformation with or without Mr Gorbachev's help. If Mr Boris Yeltsin today becomes the first elected ruler in Russia's history, then it could legitimately be seen as helping him, and through him the people who *will have* elected him.

FINANCIAL TIMES
Wednesday June 12 1991

PHARMACEUTICALS

Glaxo sells penicillin plant to Taiwan group

By Clive Cookson in London

GLAXO HOLDINGS, Britain's largest pharmaceutical group, is to sell its Cambois penicillin plant in Northumberland to the China Synthetic Rubber Company of Taiwan. The deal is believed to be the first step by any Taiwanese company into European pharmaceutical manufacturing.

The plant produces an estimated 1,400 tonnes a year of bulk penicillin G, about 10 per cent of total world production.

Most of its penicillin output, which is worth £20m ($34m) a year, is currently sold to other pharmaceutical companies for processing into antibiotics used for a wide range of infections.

Glaxo decided to sell Cambois to concentrate on high-*margin* patented drugs. Bulk penicillin manufacturing is a low margin activity, though it requires specialised fermentation and separation technologies.

For CSRC, the Taiwanese company, the deal represents a diversification into Europe and into a new manufacturing sector. Until now, CSRC has concentrated on heavy chemicals and steam and electricity generation.

It is part of Koo's Development Corporation, a conglomerate with interests ranging from petrochemicals and cement to electronics and *financial* services.

Dr Michael Barber, a UK pharmaceutical consultant who studies the world antibiotics market, called Cambois "an opportunity of a lifetime. It's *the only free-standing* penicillin plant in the western world".

Other penicillin plants, such as SmithKline Beecham's large facility in Scotland, are linked into downstream antibiotic production on the same site.

Global demand for penicillin-based antibiotics is increasing only by about 3 per cent a year, Mr Barber said, but the Asia-Pacific market will grow much more rapidly over the next decade. CSRC is expected to use Cambois as a source of raw material for manufacturing antibiotics in Taiwan.

It would be difficult for *CSRC to acquire the technology* to build a new penicillin plant in Taiwan and the investment required would be about £100m. Although the price negotiated for Cambois has not been disclosed, it is far less than that.

Another factor is that penicillin production is easier in cool climates. The fermentation process releases a lot of heat and the 100 cubic metre *fermentation vats, containing* penicillium mould and nutrients such as sugar, have to be maintained at 25 deg C.

Dr Joe Blaker, managing *director of Glaxochem, the UK* group's primary manufacturing arm, said a priority in selling Cambois was to maintain as many jobs as possible. The workforce is being reduced from 280 to 210 through voluntary redundancies and early retirement.

EBRD ADVISES MOSCOW TO WIDEN PRIVATE SECTOR

Soviets pressed to reform economy

By Peter Norman, Economics Correspondent, in London

THE EUROPEAN Bank for Reconstruction and Development has advised the Soviet Union that it should act within six months to stabilise its economy and begin a big shift in activities towards the private sector.

The recommendations are part of a programme for reform of the Soviet economy that the recently established bank has submitted to the Group of Seven nations, which meet in London next month, and to President Mikhail Gorbachev.

The plan, devised by Mr Jacques Attali, the EBRD president, Mr John Flemming, its chief economist, and Soviet, US and Japanese members of the EBRD's staff, was presented to the "sherpas", the seniors officials preparing the summit, late *last* week.

Mr Flemming and EBRD officials are now in Moscow to discuss the ideas with the Soviet authorities.

The EBRD programme sets out ways *for Soviet* economic policymakers to establish their credibility while starting on the longer term goals of liberalising and privatising large sectors of the Soviet economy. It *does not attempt to cost the* proposed reforms, but Mr Attali and his senior officials clearly hope that their plan will influence debate on the issue at the G7 summit.

As a first step, the EBRD calls for clarification of the responsibilities of the central government and the republics.

The bank urges the introduction of a stabilisation programme, led by the International Monetary Fund, that would tackle price reform and the huge Soviet budget deficit, would control money supply and wages, and start mopping up the monetary overhang. It also says the Soviet Union *should begin moving to currency* convertibility, achieving limited convertibility within six months.

The EBRD sees itself playing a big part in reforming the eco*nomic structure of the Soviet* Union.

However, because its statutes limit its lending to the Soviet Union to just Ecu60m ($70m) a year for the first three years of its operation, its main role will be to provide technical assistance and advice.

The bank suggests a number of priority areas for reform, including the privatisation of small businesses, housing, telecommunications and transport; *the creation of private enterprise* and a modern banking system; the strengthening of agriculture and the food industry, and the development of a market-based energy sector.

In an example of what the bank has in mind, the EBRD announced yesterday it had agreed to provide the organisational committee of the State Bank of the USSR with advice on setting up a Moscow-based bank.

This would be majority-owned by western institutions and mainly concerned with project finance. As a first step, the EBRD will carry out a feasibility study.

Mr Attali will discuss the EBRD's proposals with Mr Gorbachev in Moscow on Saturday. Before the summit, he also plans to meet western policymakers and Mr Michel Camdessus, the IMF managing director.

He is also expected to campaign for an easing of the restrictions currently imposed on EBRD lending to the Soviet Union.

Ashley Ashwood

Jacques Attali: will discuss the plans with Mr Gorbachev in Moscow at the weekend

Economy under control, says Pavlov; Soviet oil workers given 40% pay rise; Poles seek to swap debt for nature, Page 4

Hopes of early UK interest rate cut dashed

By Rachel Johnson and Peter Norman in London

THE BANK of England yesterday quashed market hopes of an early cut in UK interest rates even though official figures showed a drop in the rate of underlying inflation.

The Bank, using its money market operations, underscored its determination to maintain current UK interest rates by lending £530m ($900m) at 11.5 per cent over the next nine days. This is well beyond Friday when the announcement of the retail prices index for May had been expected to trigger the next rate cut.

By lending for nine days at the base rate, the authorities have ensured smooth trading until after next Wednesday, when the June sterling contract on the London futures market expires.

Expectations of an imminent reduction in borrowing costs had gathered strength in London since late last week. Hopes were fuelled by a report from the Confederation of British Industry, the employers' organisation, of falling wage settlements in the manufacturing sector and expectations that Friday's retail prices news would show the so-called headline rate of inflation dropping below 6 per cent.

Although the UK authorities insist that falls in headline inflation do not automatically result in interest rate cuts, they have twice this year eased borrowing costs on the same day as the release of the retail prices index.

Before the Bank acted yesterday, speculation of a cut received another boost when the Central Statistical Office announced that the output price index for home sales of manufactured goods rose by 0.4 per cent in May to an annual rate of 6.0 per cent. April's rate was revised from 6.4 to 6.2 per cent.

The Treasury said yesterday's news showed that "inflationary pressures at the wholesale level have fallen sharply since the beginning of the year".

It said its preferred index of producer price inflation, which excludes food, drink and tobacco, was rising at an annual 5.5 per cent in May – the lowest since last January. This index was down a full percentage point since February, it said.

Yesterday's figures also helped to iron out inconsistencies between different measures of underlying inflation, as CSO indices have taken much longer than CBI surveys to register price falls. CBI surveys point to further falls in underlying inflation in the coming months.

Sterling's relative weakness in the exchange rate mechanism of the European Monetary System is thought to have prompted the Bank's decisive move against rate cut speculation. The pound declined against a weak D-Mark, falling 1 pfennig to DM2.945, below its DM2.95 central rate. It slipped from fourth to seventh position in the EMS exchange rate mechanism.

London equities shrugged off the Bank's move, however. The FT-SE 100 index advanced in sympathy with Wall Street to close at 2,542.6, up 30.7.

The CSO announced that the input price index for manufacturers' materials and fuel fell by 0.1 per cent in the 12 months to May.

Government Bonds, Page 24

THE LEX COLUMN

London's uneasy optimism

If the stock market is a leading *economic indicator, yesterday's* FT-SE 100 close within three points of its all-time high does not seem to have convinced Sir Eric Pountain of Tarmac. His depressing AGM statement *yesterday suggested that far* from recovering, the economy is setting off on a fresh downward leg. Nor is he alone. Anecdotal evidence from a range of companies points to trading conditions remaining depressed for the rest of 1991. True, spring's flood of rights issues has slowed to a trickle, but the government's showing in the polls ought also to be weighing on share prices.

The one bright spot for investors is the hope that the underlying as well as the headline rate of inflation is now declining. The latest producer price index, showing a marginal decline in the annual growth rate to 6 per cent, bears this out. But lower inflation will need to be followed by yet more interest rate cuts to produce a convincing FT-SE rally. With sterling already showing the first signs of weakness at the prospect, the Bank of England is duly seeking to dampen expectations.

The problem is that the timing of cuts has become ever more delicate as support for the government has waned. Even appearing to bring them forward for political reasons would be almost as bad for confidence as not cutting them at all.

However good the inflation news, cuts will have to come in measured doses for some time to come. That may explain both the market's hesitancy and Sir Eric's gloom.

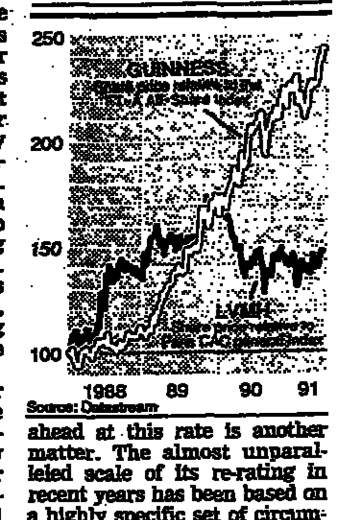
Guinness

The decision by LVMH to spend a further £230m or so on Guinness shares is an interesting confirmation of the relative standing of the two companies. When the cross-holding agreement was announced three years ago, it might have seemed risky for Guinness to choose so large and ambitious a partner.

Since then, the LVMH share price has gone up by around 50 per cent while Guinness's has almost trebled. Guinness is now worth half as much again as LVMH, while the Guinness stake accounts for nearly 40 per cent of LVMH's market value. It might seem rational for LVMH to conclude that its money is better spent on Guinness shares than on its own business.

Whether the Guinness share price can carry on bounding ahead at this rate is another matter. The almost unparalleled scale of its re-rating in recent years has been based on a highly specific set of circumstances, one of which has been the new-found determination by Scotch producers to push through price increases. That united front is now facing its first big challenge in the form of world recession and falling sales volume. At £10 a share, Guinness is on some 15 times prospective earnings. That is scarcely unreasonable given the record; it may be tougher going from here, all the same.

FT-SE Index: 2,542.6 (+30.7)



Source: Datastream

Northern Foods

Northern Foods' 17 per cent rise in pre-tax profits yesterday was in impressive contrast to the awful figures from Unigate the day before. The company's finances are in rude health, while recent heavy capital expenditure is already showing signs of contributing to earnings this year. But however good the start to this decade, Northern Foods can scarcely look back on the 1980s with *pride. Unigate has underper*formed the market by 30 per cent in the past 10 years: Northern has underperformed by a quarter.

Nevertheless, Northern *seems to have been quicker at* returning to basics. The result last year was an improvement in operating margins from 8.6 per cent to 9.4 per cent. In the short term, the company's present optimism seems fully justified. Further out, one wonders whether the piggy-back ride on the UK's largest food retailers can continue to deliver the same growth for more than a couple of years. In addition, the challenge this decade will be to manage an expansion into Europe. Northern Foods' shares have outperformed the market by 38 per cent in the last year, the result being a sector average rating of around 12 times prospective earnings. After all, they had a lot of ground to make up.

Fyffes

Speculation about a bid for Del Monte was predictably stoked yesterday by Fyffes' I£60m rights issue of convertible preference stock. The proceeds lift Fyffes' net cash to around I£90m. This is comfortable enough by most standards, but surely not enough to land Polly Peck's fruit growing and distribution subsidiary, even assuming the administrators wished to sell. Del Monte could fetch as much as $500m, coincidentally the amount of cash which the powerful US company Chiquita has raised in the last nine months.

On the other hand, Fyffes has to do something. The bulk of its profits appear to be made in the UK, where protection for Caribbean bananas afforded by the EC can no longer be taken for granted. No one believes that there will be a free-for-all after 1992, but it is not unreasonable to assume that cheaper central American bananas will be allowed improved access over the next few years. Fyffes has already established a foothold in Honduras, but it badly needs new sources which the likes of Del Monte would provide. Demand looks exciting in eastern Europe as well as inside the EC; but the new competition means that Fyffes could be hard put to maintain its strong earnings momentum.

SD-Scicon

SD-Scicon may regard the £116m bid by Electronic Data Systems as an insult, but at 45p per share it compares well with both the 37p cash offer from Cray Electronics and the 41p paper alternative. That should be enough to knock Cray out of the running, despite its announcement that its offer had been accepted by British Aerospace, which has a 25 per cent stake. BAe is only committed if Cray's offer goes unconditional, which will depend on investors buying its argument that, by taking on Cray paper, they can share in SD-Scicon's recovery. The trouble is that Cray is itself an uncertain recovery play, and its management has no real experience of the fixed-price software contracts that are the source of SD-Scicon's trouble. EDS would at least take the company off investors' hands at a price 80 per cent above its 1991 low.

Tate & Lyle unveils an alternative to fat

By David Owen in London

TATE & LYLE, the world's largest sweeteners group, yesterday unveiled Stellar, its principal entrant in the fast-growing market for fat replacement products.

Stellar and its rivals could help to realise many food manufacturers' hopes to market guiltless pleasure in the 1990s.

The products replace fat in foods from yoghurts to pizza cheese, making possible low-calorie products for increasingly health-conscious consumers without sacrificing the taste and textural characteristics associated with fat.

Tate's US-based AE Staley subsidiary has developed a starch-based product from maize that meets US Food and Drug Administration regulations on the use of "modified food starch".

This means Stellar can immediately be used in a broad range of food products, without waiting for FDA approval.

Mr Neil Shaw, Tate's chairman and chief executive, said: "Some food manufacturers have been researching the use of the product for some time now."

In its "creme" form - arrived at by mixing the powder with water in a process known as "shearing" - Stellar contains just one calorie per gram, nine times fewer than fat.

Tate estimates world demand for fat replacement products, almost all of it in the US, at $200m a year, rising to $800m by 1995. Frozen desserts containing Simplesse, a protein-based fat substitute developed by Monsanto's NutraSweet subsidiary, have been on the market in the US for more than a year.

Procter & Gamble has been awaiting FDA approval for Olestra, a combination of fatty acids and sugar, since 1987. It recently narrowed the scope of its petition to cover one isolated product group: salted snacks.

The size of the potential market makes it easy to see why competition is intensifying. According to NutraSweet, overall retail sales of products in which Simplesse could be used are estimated at approximately $15bn in the US and about the same again in western Europe.

Tate expects products containing Stellar to start appearing in the US by the second quarter of 1992, soon after the powder is due to become available in commercial quantities.

These Supplies will come from a plant of unspecified capacity which will come onstream at Loudon, Tennessee next April. Initial marketing efforts will be focused on North America, with European sales conducted through Amylum CST, Tate's Belgium-based subsidiary.

Bundaberg bid, Page 19
Battle ahead, Page 29

Russians vote their way into history

Continued from Page 1

though debate is perhaps too strong a word as the six never engaged head-on.

The main TV channel got most of them together in a studio on Monday night, with the notable absence of Mr Yeltsin. Mr Igor Fesunenko, the chairman, allowed each a few minutes to answer sets of questions, and never to challenge each other.

In their "big" interviews, the main talking points for an attentive electorate have often been the characteristics of the three minor candidates: the *studied provincialism* of Mr Aman Tuleyev, leader of the Kemerevo Council in Southern Siberia; the raucous and blunt Stalinism of General Albert Makashov; and the Wagnerian excesses of Mr Vladimir Zhirinovsky, leader of the Liberal Democratic party, who in the course of one TV interview ordered his questioner out of the studio.

Few of the candidates have grown into television, a medium where Mr Yeltsin appears guarded – Mr Fesunenko gave him a rough ride in his interview last week – and Mr Ryzhkov boring.

However, even the boredom is at least real; the treat for western eyes is of politicians, running for major office, who are not yet ruined by the image makers.

Though they have generally abstained from direct personal attacks on each other, their supporters have been much less inhibited, in particular, the pro-Ryzhkov press.

Pravda produced three professors from the corrupted world of Soviet psychiatry to testify that Mr Yeltsin was power hungry.

Ahead of all, however, has been Sovetskaya Rossiya, the daily of the Russian Communist party.

Its eve-of-election issue was a "Get Yeltsin" special; its lead story a rehash by the Soviet Procurator Mr Nikolai Trubin of the murky affair of a currency buying scandal involving both a British-South African businessman and documentation signed by the Russian government of which Mr Yeltsin is leader.

He never actually implicated Mr Yeltsin, but insisted that the deal was done under his aegis.

Organisationally, the election is strict. Candidates get Rs200,000 from the state, and can use their own savings, as well as donations from workers. The voting today will be organised by local election committees with the help of local authorities.

For a candidate to win on the first round, he must have the support of 50 per cent of those voting and the total turnout must be at least 50 per cent of the eligible 105m.

Announcement of the first official results will be much slower than in the west – next Monday – but, like the west, they will probably leak much earlier.

WORLDWIDE WEATHER

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

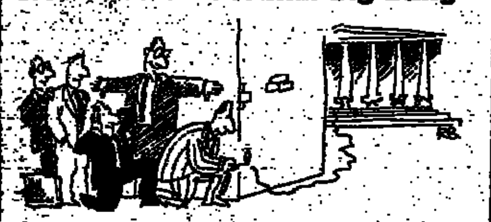
Leading US machine tool groups merge

Two US companies have combined to create the largest American machine tools concern. Giddings & Lewis, a leading automation systems maker, has agreed to acquire Cross & Trecker, the third largest US maker of machine tools, based in Michigan. In 1990 Giddings & Lewis, based in Wisconsin, had sales of $243m and Cross & Trecker $431m. Page 22

Vosper sails away with 18% gain

Vosper Thorneycroft, the UK warship designer and builder, yesterday reported an 18 per cent increase in pre-tax profits to £14.3m ($23.8m) in the year to March 31. Peter Usher, chairman (left), said ship sales prospects had been enhanced by the performance of its Hunt class minehunters in the Gulf war. Also pictured is Martin Jay, managing director, with a model of the company's new Sandown mine hunter, which is entering service with the Royal Navy. Page 29

Slow fuse on German Big Bang



Regulators have finally lit the fuse on the long-awaited Big Bang on the German stock market. Last week, the Frankfurt stock exchange paved the way for the development of a more effective electronic securities trading system as well as the framework for rationalising the regional character of the German stock exchanges. But, as Katharine Campbell reports, there is still much cajoling in smoke-filled rooms to be done before the final countdown. Page 25

Braced for aluminium deluge

Nearly a third of the Soviet Union's aluminium output could arrive in the west this year, affecting prices on the London Metal Exchange, according to Mr Dag Flaa, vice chairman of the European Aluminium Association. Page 30

Government bond table widened

Growing international interest in the high-yielding European government bond markets has prompted the Financial Times to include Spanish, Italian and Danish bonds in the benchmark government bond table from today. Page 24

Mercury Communications

A report in yesterday's FT said that Mercury had decided not to compete head-on with BT in the UK residential market. The position is that Mercury continues to serves this market both with its owns services and in conjunction with partners in the cable TV industry, although it will not provide lines direct to people's homes. Mercury's extra costs, Page 6

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Adlo Prof	775	+	11
Douglas Hldgs	528	+	9
[illegible]	277.5	+	9.5
[illegible]	220	+	11
[illegible]	273	+	23
Falls			
[illegible]	380	-	15
NEW YORK ($)			
Rises			
[illegible]	[illegible]	+	[illegible]
Falls			
[illegible]	[illegible]	-	[illegible]
PARIS (FFr)			
Rises			
Alcatel	1134	+	34
[illegible]	821	+	16
La Redo	431	+	21
[illegible]	1854	+	74
Falls			
Credit Lyon	609	-	15
[illegible]	463	-	27
TOKYO (Yen)			
Rises			
[illegible]	1120	+	80
[illegible]	1780	+	150
[illegible]	1120	+	40
Falls			
[illegible]	1180	-	90
New York prices at 12.30pm.			
LONDON (Pence)			
Rises			
[illegible]	[illegible]	+	[illegible]
Falls			
ASDA	108	-	7
[illegible]	[illegible]	-	[illegible]

SD-Scicon rebuffs £116m GM bid

By Richard Gourlay in London

SD-SCICON, the UK computer services company fighting a hostile bid from Cray Electronics, yesterday received a counter-offer from Electronic Data Systems, a subsidiary of General Motors.

The 45p-a-share cash offer from the US vehicle group values SD-Scicon at £116m ($197m), some 21 per cent more than the cash alternative in Cray's offer and £7m more than its paper offer.

The SD-Scicon share price rose 4p to 47p on the stock exchange in London after the EDS bid was made.

SD-Scicon rejected the new overture, saying that both the Cray and EDS offers were unsolicited and far too low.

Cray greeted the counter-offer with the claim that British Aerospace, holder of 25 per cent of SD-Scicon, had already given "irrevocable support" for its cash alternative.

The BAe undertaking is only binding, however, if by July 8 Cray has received acceptances from more than 50 per cent of shareholders and can declare its offer unconditional. After that date, BAe would be free to accept the EDS offer.

EDS claims to be one of the strongest information technology service companies in the world with sales in 1990 of $3.6bn (£2.1bn) and pre-tax profits of $465m.

It has experience with the kind of fixed-price contracts that tripped up SD-Scicon and helped it to a £20m loss last year, rendering it vulnerable to a bid.

Mr Juergen Berg, EDS European group executive, said SD-Scicon would fit perfectly into the company's expansion plans in Europe and that there was a strong overlap in industry knowledge and technical skills.

However, EDS arrived in the UK in 1985 amid some controversy when some executives were told to tell immigration officials that they were on holiday while their work permits were being processed.

Mr Clyde Ziegler, managing director of EDS's UK division, said he was confident that this incident would not prevent the company winning substantial orders in the UK public sector.

He said that, in 1989, EDS had won two contracts to run Department of Social Security data centres and nearly half its sales of £100m that year were in the public sector.

SD-Scicon is understood to have been confident that it could have seen off Cray's bid based on its defence, published on Monday, that it had put the worst of its troubles behind it. Brokers had estimated pre-tax profits of about £5m this year and £8m for 1992 compared to the £20m loss last year.

However, the emergence of EDS raises significant doubts that SD-Scicon will retain its independence.

The focus of the defence is likely to shift to whether EDS is offering enough and to possible further offers from other worldwide information technology companies seeking a foothold in Europe before the single market is completed in 1992.

Imry agrees £400m rescue package

By Vanessa Houlder, Property Correspondent, in London

IMRY Group, the British company taken private in a highly leveraged £314m deal in 1989 at the peak of the UK property boom, has agreed a restructuring package under which Barclays Bank has increased its loans to Imry and its parent company to more than £400m ($680m).

The restructuring, accompanied by a change in ownership, reflects the fall in property values over the past year. This prevented Imry's parent company, Marketchief, from making sufficient disposals to repay its bank loans. It also risked a breach in loan covenants by Imry.

Mr Wolfgang Stolzenberg, Canadian businessman who was in the consortium that took over Imry in 1989, is buying out its other investors. Eagle Star and Prudential-Bache which, like Mr Stolzenberg, invested £31.7m in loan stock in Marketchief, both receive £3m for their holdings.

The equity investors have each received £1 for their original investment of £1.25m. In addition to Mr Stolzenberg, the equity investors were Eagle Star, Prudential Bache and Development & Realisation Trust, a vehicle controlled by Mr Stephan Wingate, who engineered the Imry takeover.

"Mr Stolzenberg was prepared to buy us out at more than the company is worth," said Mr Colin Parker, investment director at Eagle Star. "It was a highly geared property company which was acquired at the wrong side of the property cycle."

Barclays has extended its original £214m loan to Marketchief, Imry's parent company, on to a medium-term basis and agreed to roll up interest payments for a period.

It has also provided a new £200m loan to Imry, which was at risk of breaching its loan covenants following the fall in property values. The new money, which largely stems from a £150m stand-by loan facility agreed at the time of the takeover, will pay back an £85m loan from a syndicate headed by Citibank and finance new trading opportunities. Barclays has also guaranteed a £19m loan on one of Imry's developments.

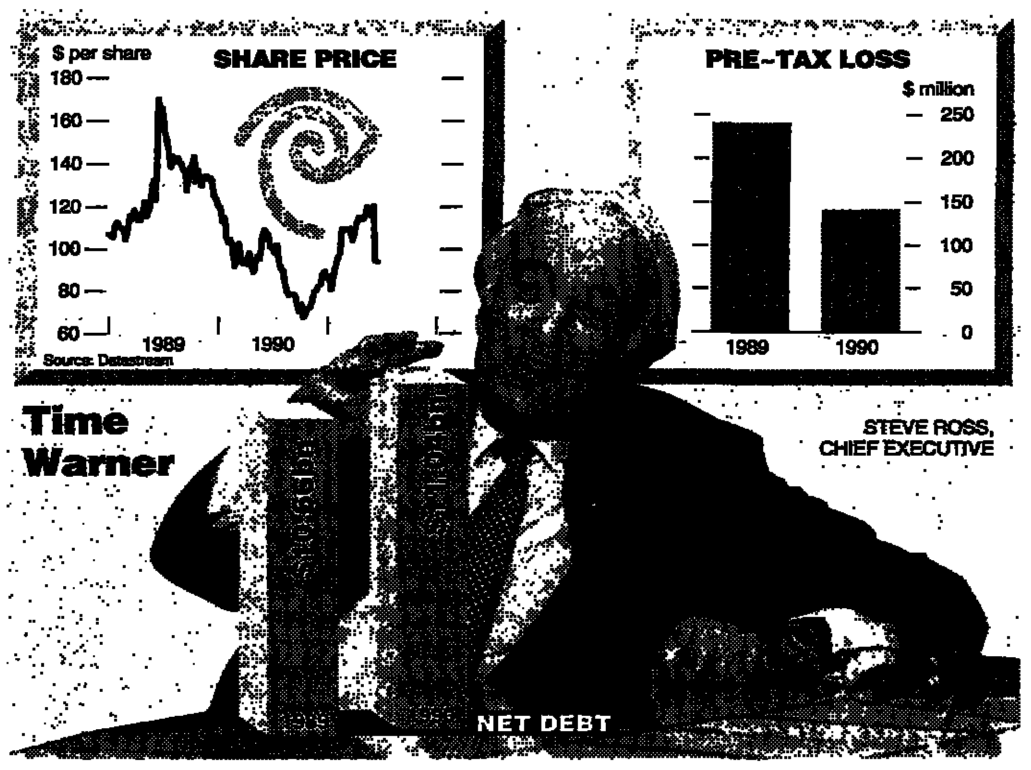
A spokesman for Barclays said that the restructuring reflected the change in the market place since 1989. The new loans were partly secured unlike its previous exposure, he added.

Barclays has also provided "significant" funds for a new joint venture involving Imry which will seek new investment, trading and development opportunities. Mr Myers said that the new company, Commercial Property Corporation (CPC), was considering the acquisition of a £30m property portfolio, after which it would still have "tens of millions" available to it. Mr Myers said that Barclay's support for CPC "was a vote of confidence in the management".

CPC is a joint venture between Imry and a new company called Vines Management, set up by Mr Martin Myers, Imry's chief executive, to manage Imry's assets. Mr David Davies, chairman of Imry before it was taken over, will be the chairman of CPC.

Shocks and thrills from a new release

Karen Zagor reports on reaction to Time Warner's rights offer



STEVE ROSS, CHIEF EXECUTIVE

LESS than two years after Time upset shareholders by rejecting a $200-a-share takeover bid by Paramount in favour of a $14bn merger with Warner Communications, the world's biggest media and entertainment company is rattling shareholders again with its confusing rights offer.

Last week Time Warner announced it would issue 34.5m new stocks through a $2bn-plus rights offering. Shock waves ran through the US investment community as Time Warner had been signalling to Wall Street for months that it it expected some large international companies to invest in parts of its business to reduce the debt/equity ratio.

The Warner merger had loaded the company down with more than $11bn of debt and servicing which pushed Time Warner into a 1990 net loss of $227m although the company's annual cash flow of about $2.3bn allowed it to comfortably service the borrowings.

The rights offer has confused and angered some investors. First, the company chose a British-style rights offering, under which investors are offered new shares in a company in proportion to their existing holdings, a technique almost unknown in the US. But even one British investment banker said: "To call it a rights issue is almost to confuse the term. It is a rights issue only in that current holders are being given the first crack."

The company, which has about 57.8m shares on issue, will offer each shareholder 6/10 of a right at a price that will translate into $105-a-share if the offer is fully subscribed. If fewer shareholders exercise their rights, the pool of new shares will be distributed between the subscribers, provided at least 60 per cent accept the offer. The lower the number of shareholders who take up their rights, the lower the price they pay per share, with a floor of $63. Shareholders will not know how many shares they are allocated until after the offer closes.

There is a dual incentive to participate - although critics describe it as coercion. First, failure to take up the rights would mean dilution of an investor's stake in the company. Second, there is the possibility of buying the shares for as little as $63 if enough shareholders baulk at the issue.

The company's share price, which had climbed to $120 on the New York Stock Exchange from about $70 in September, tumbled 20 per cent in the three days after the rights issue news. By midday yesterday, the stock firmed $1⅝ to $95¼.

If the share price does not recover and investors believe the take-up is likely to be high, they may simply walk away from the deal rather than pay a premium for new shares.

This could be one fatal flaw of the scheme. Another, claims a British banker, is that the structuring of the deal, and the uncertainty over the final price of the shares, makes it impossible for a market to develop in nil-paid rights - a feature of the UK system which allows shareholders to sell the entitlement to buy rights issue shares.

The presence of an underwriter may help dispel the uncertainty around the offer, particularly as the rights are not being offered at a deep discount, but there is no underwriter for the deal.

The large number of investment banks involved in the deal has also upset shareholders. The aggregate fees are expected to range from $41.5m to $145m for what is perceived by some as little work and virtually no risk.

A money manager at Capital Guardian Research, which holds about 2.23m shares and will probably subscribe, believes the offer makes sense for the company in the long-term.

Other shareholders are less confident. Mr DeWitt Bowman, chief investment officer at the California Public Employees Retirement Fund, said: "We are finding it difficult to determine how we will respond. It forces us into a speculative situation. From our perspective, there is definitely a sense of disappointment with the offer."

Time Warner expects proceeds of between $2.1bn and $3.5bn, which it will use against debt. A reduction in debt would strengthen Time Warner's balance sheet and the company hopes a lower debt load will help it attract the foreign investors it has been courting for "strategic alliances".

The jury is still out on the wisdom of the Time Warner merger.

Most of the cross-media ventures at Time Warner have been fairly minor. For example, subscribers to Time publications receive promotions for Warner films; Warner Brothers now has access to the Time Warner database, which helped the studio promote "Memphis Belle" a Second World War film, to people who had bought war books or movies. Warner's involvement was minimal in a big marketing package with Chrysler, which is expected to generate advertising revenues of more than $40m.

Wall Street says the most immediate benefit of the merger is the clout that comes from size, allowing Time Warner to dominate most of its markets. Whether the company has the clout to persuade shareholders to cough up the cash for the rights offer is another matter.

Volvo unveils new car range

By Kevin Done in Gothenburg

VOLVO, the Swedish car and truck maker, yesterday unveiled a new range of large family cars, the 800 series, as the first result of the company's most ambitious development project.

Volvo said it had invested about SKr16bn ($2.5bn) to develop and produce the range, making it the biggest single industrial project undertaken in Sweden. The 800 series is set to become the company's main volume car, eventually replacing the Volvo 200 series.

The range is likely to be the last car series to be developed alone by the company. Mr Pehr Gyllenhammar, Volvo chairman, confirmed yesterday that future product generations would be developed with Renault of France, the Swedish group's industrial partner.

The financial burden of developing the 800 series has hit Volvo's profitability in the last couple of years. The surge in capital investment and research and development spending has coincided with a recession in Volvo's main markets of the US, the UK and Scandinavia, plunging the car operations into loss in the last 18 months - with an operating loss of SKr855m in 1990.

With the range, Volvo has switched to front-wheel drive for the first time in its large cars.

Much of the SKr16bn investment for the 800 series has been spent on modernising Volvo's main engine, gearbox and stamping plants in Sweden. Volvo has also invested heavily at its assembly plant in Ghent, Belgium, where the series will be produced.

The car will be launched in Scandinavia in September; in Germany, the Netherlands, Belgium and Switzerland during the late autumn; in southern Europe and Japan early next year; in the UK, next summer; and in the US in September 1992.

Production is forecast to reach about 25,000 units in the first year, but Volvo aims to reach a peak output of more than 200,000 of the cars a year during the first half of the 1990s.

Volvo will decide next year whether to expand its assembly capacity in Ghent - currently about 135,000 a year - or to begin production of the series also in Sweden. However, Mr Gyllenhammar said that the Ghent plant had achieved 25 per cent higher productivity than the company's Swedish operations. Of the SKr16bn investment, some SKr12bn has been spent in Sweden and SKr2bn in Ghent.

Swiss insurer expects recovery

By William Dullforce in Geneva

WINTERTHUR, the Swiss insurance group, expects to renew its profit growth in 1991 after an unexpected 9.5 per cent drop in net earnings last year.

Premium growth during the first five months had been "very favourable," said Mr Peter Spälti, chairman and chief executive.

Recovery on the world stock markets allowed the group to take profits on investments. Earnings would also benefit from appreciation in US, Canadian and Australian dollars.

Mr Spälti said a "a certain optimism" was warranted that the reversal of the trends on the securities and currency markets which had upset Winterthur's profit expectations last year would persist.

Last year net consolidated earnings fell to SFr236.6m ($157m) from SFr261.3m in 1989, although premium income rose by 4.1 per cent to SFr12.48bn, an increase equivalent to 9.7 per cent in local currency terms. Shareholders are receiving an unchanged dividend of SFr68 per share and SFr13.60 per participation certificate.

Winterthur's 1990 annual report published yesterday marks a considerable advance towards a fully consolidated statement.

Shareholders' equity is restated at SFr3.79bn against the SFr2.66bn shown in the 1989 report. Under the new reporting principles the 1989 figure should be adjusted to SFr4.64bn.

The decline in equity thus revealed for 1990 stems from the depreciation of goodwill on the $530m purchase of General Casualty, the US company bought last year, a decrease in equity in some foreign subsidiaries and the fall in value of stock investments.

Thomson to go on with merger plan

By Charles Leadbeater, Industrial Editor, in London

THOMSON, the French state owned electronics group, will press ahead with plans for an eventual merger of its semiconductor operations with those of Siemens and Philips, despite receiving a cool response to the proposal earlier this week, Mr Alain Gomez, Thomson president, said yesterday.

Mr Gomez said the sceptical response from Siemens of Germany and Philips of the Netherlands to the idea of a merger with SGS-Thomson, the Italian-French chip maker, would *not force Thomson* to change tack.

He said political and commercial pressure would eventually force the companies to *reassess their position*. Mr Gomez said Thomson had no plans to seek a partnership with a Japanese or US chip maker as an alternative to a European merger.

Mr Gomez predicted accelerated cross-border restructuring in the European defence electronics industry in the wake of the end of the Cold War.

He predicted this would take the form of further cross-border acquisitions and joint ventures.

The recent agreement between *Thomson's defence* electronics subsidiary Thomson-CSF and the UK's GEC-Marconi to form a joint company to research, develop and eventually produce the next generation of airborne radar was one model for the future, he said.

Mr Gomez said there was an urgent need for open competition in European defence procurement and greater cohesion to defence policies to ensure European companies would be strong enough to meet the challenge which Japanese and US producers would mount at the end of the *decade*.

He indicated that the French industry was most in need for further consolidation in line with similar moves in *Germany, Britain and Italy*.

In contrast with other areas of electronics such as semi-conductors and consumer electronics, where European producers already faced a Japanese onslaught, there was a need for greater protectionism, he said.

Goldman Sachs heads towards a half-way house

Richard Waters reports on the US investment bankers' moves to becoming a European partnership

Goldman Sachs, the US investment bank, is half-way to becoming a European investment bank. Like some other US houses, it has made great headway in *the past five years in the continent's* cross-border investment markets – although the most difficult steps still lie ahead. Its ability to negotiate these will help to determine the future shape of the European investment banking business.

In revenue terms, Goldman is already a significant force. Its European operations made a quarter of the group's worldwide profits last year, according to Mr Eugene Fife, chairman and managing director of Goldman Sachs International. That is equivalent to some $150m, if rumours of the $600m profits made by this very private partnership are to be believed. It employs only a sixth of the group's 6,700 staff.

In terms of its presence in London, Goldman also figures prominently. While other investment banks are shedding staff and trimming overheads, Goldman has just moved into a *gleaming new colossus of* an office block, built in London's Fleet Street, former home of the newspaper industry.

The building is reminiscent of the ego-driven expansion of the investment banking world before the October 1987 stock market crash. It was conceived only months before the crash, in fact, when Goldman bought the site from The Daily Telegraph. But the outward impression belies the steadiness of Goldman's development.

Eugene Fife: European operations made a quarter of group's worldwide profits

Having developed the building at a cost of £250m, ($425m) Goldman sold half the equity to an insurance company and has let half the space. It reckons the rental costs are about equal to what it would have paid for its old London offices, which were due for a rent review (the building was built by and is owned by one group of Goldman partners, and is let to the current partnership – hence the need to set an arm's length rent).

However, considering its significance to Goldman, the European business seems almost peripheral in management terms. Of the bank's 146 general partners – those who have an equity interest in the firm – only 17 are based at its European headquarters in London. Of these, just five are non-American. Goldman needs more partners in Europe and more European nationals as partners.

Mr Fife says that Goldman does not operate a revolving-door policy, spinning senior US staff through Europe and back out again, but this is only part of the task of building a separate management with the clout to establish itself in the Goldman hierarchy.

Goldman has made its name in Europe through cross-border mergers and acquisitions and privatisation work. Its appointment to advise ICI, following Hanson's abrupt appearance on its share register, has confirmed that standing.

In the league-table obsessed investment banking business, Goldman is persistently at or near the top in terms of cross-border M&A. Such super-leagues need to be taken with a *pinch of salt, as they do not distinguish* between advisers' functions.

For instance, Goldman was associated with the merger this year of Nationale-Nederlanden, the Netherlands' biggest insurer, and *NMB Postbank*, but it was there only to give an independent opinion on the terms of the deal, not to advise.

When asked which banks have been the most successful in European M&A, though, competitors all mention Goldman first.

Having avoided the buying madness that preceded London's Big Bang in 1986, it has taken Goldman considerable time to develop its own equity research and sales staff. Though small (with just 22 researchers, who also work on corporate deals), the equity side has recently graduated to some big bought deals, most notably for Elsevier, the Dutch publisher, late last year.

Hardly any of the investment banking operations in London are driven from the US. Only 18 per cent of the deals last year involved a US corporate client – compared with roughly 90 per cent five years ago, when Mr Fife came to London. The precision of the calculation betrays Goldman's anxiety to change the popular image of US banks in Europe.

Elsewhere, European income is heavily dependent on US clients. Many of the trading activities, from foreign exchange to fixed income, work largely for the London arms of US financial institutions. And despite a strong range of businesses *based in London, there are still* surprising weaknesses – principally asset management. While it manages around $28bn in the US, it has only begun to develop skills in London in this area in recent months.

Two things are likely to determine whether Goldman still stands at or near the top of the heap by the end of the decade. First, it needs to establish a stronger presence on the Continent. Its success at building a corporate client base aside, it still feels like an outsider. It makes much of having panels of eminent *local advisers to* help it with the customs and cultural oddities of countries in which it operates. But this only serves to highlight the insecurity the bank feels when it comes to dealing with Europeans.

Goldman also has few people outside the UK (about 100, in various branch offices). Rehousing 1,000 people *in a flagship* headquarters in London demonstrates its confidence in that city's place in Europe for some time to come, but appears to turn its interest away from the continent.

Goldman plans to increase its London office space – and by implication its London staff – by a third in the next five years, according to Mr Donald Opatrny, the partner who masterminded the new office *development*.

But another London partner says he expects the London staff to decline in the coming years as more skills are exported to the continent.

The second challenge is the extent to which Goldman can bring Europeans into senior management positions. Mr Fife talks warmly of the international outlook of a competitor, J. P. Morgan, epitomised by the multinational flavour of its senior staff – although he stops short of pointing to it as a role model for Goldman.

Building a stronger European partnership will take time. The bank creates partners only once every two years, and it is nearly 18 months before the next round is due. By then, its small, US-dominated senior management in London will look even more of an anomaly.

Tate may modify bid for Bundaberg

By David Owen in London

TATE & LYLE will probably modify its hostile A$325m (US$244.4m) bid for Bundaberg Sugar, Australia's third largest raw sugar producer, following yesterday's approval of the offer by Australian foreign investment authorities.

Mr Neil Shaw, Tate chairman and chief executive, said that it was "highly likely" that the UK sweeteners group would amend its condition that the bid receive 90 per cent shareholder acceptance.

It remained in the balance whether the threshold for acceptances was amended to 50 per cent or nearer two thirds, he said.

Mr Shaw stressed that Tate would "walk away" from the Queensland sugar miller and rum distiller rather than again raise its revised A$4.10 per share offer.

Mr John Kerin, the newly appointed Australian treasurer, yesterday announced he had no objection to the Tate bid and that an interim order blocking a takeover had been revoked.

This ended a tense six-week wait after the submission of advice from The Australian Foreign Investment Review Board (FIRB) to Mr Paul Keating, the former treasurer.

The treasurer has the discretion to accept or reject an FIRB recommendation.

Tate launched its offer on March 19 at an initial A$3.70 a share, valuing Bundaberg at A$290m.

Bundaberg is Tate's first hostile bid since it won Staley Continental, the US corn syrup producer, in 1988.

Institutional battle ahead; Page 29

Saab to get SKr5.5bn injection

By John Burton in Stockholm and John Griffiths in London

SAAB AUTOMOBILE is to receive SKr5.5bn ($900m) from its joint owners, Saab-Scania and General Motors, to cover losses and help finance an ambitious new model programme.

The capital injection, with Saab-Scania and GM each providing half, will consist of new equity and subordinated loans.

It will bring to more than $1.15bn the total amount invested in Saab Automobile by GM since it acquired a 50 per cent stake in the Swedish car manufacturer at the end of 1989.

The strengthening of Saab Automobile's capital structure will enable it to seek a medium-term loan to handle the rest of its funding needs.

Saab Automobile suffered a loss of SKr4.6bn in 1990, its first year of operation as a joint venture between Saab-Scania and GM, and it reported a loss of another SKr1bn during the first quarter of this year.

The losses have almost wiped out the company's original equity of SKr6.4bn.

The losses reflect not only declining sales, but also an extensive rationalisation programme, including the closure of Saab's modern car assembly plant in Malmo, opened only 18 months ago, in order to ease overcapacity.

Saab plans to introduce three new car models by 1995. The first, a successor to the elderly 900 series, is scheduled to be launched within two years.

This will be followed by replacement of the 9000 series and the addition of a top-of-the-range luxury car.

Saab sales have fallen steeply in the past couple of years to 93,231 in 1990 from a peak of 127,180 in 1986 – with a particularly sharp decline in the US.

By contrast, in 1986/87 Saab could not build enough cars to keep up with demand and it was projecting sales rising to 150,000-180,000 by the mid-1990s.

GM is relying heavily on Saab to increase GM's presence in the European executive car market, where the performance of its top of the range Opel/Vauxhall Senator has been disappointing. Its strategy is similar to that of Ford, which spent just under £1.5bn ($2.55bn) acquiring Jaguar of the UK.

Hafnia takes property stake

HAFNIA, one of Denmark's largest insurance-Based finance groups, has acquired a 40.8 per cent stake in Christianshavns Oplagspladser, ending a 6-month struggle for control of the property company, writes Xueling Lin in Copenhagen.

The stake was sold by Accumulator Invest, the investment company owned by Mr Klaus Riskaer Pedersen, a Danish financier.

According to Accumulator, the sale returned a profit of DKr20m ($2.94m) with the shares in Christianshavns Oplagspladser trading at about DKr70. Mr Pedersen has also agreed to retire from the disputed company's board.

The purchase by Hafnia removes a stumbling block to its plans to expand into property development.

Finnair hit by recession

By Enrique Tessieri in Helsinki

FINNAIR, Finland's state-owned flag carrier, suffered a FM60m ($14.4m) pre-tax loss for the year to March 31 1991 compared with a profit of FM347m for the previous 12 months.

The airline's result after financial items plummeted to a loss of FM121m from a profit of FM224m, while operating results also plunged to a deficit of FM58m from a profit of FM207m.

Net sales rose by 5 per cent to FM5.59bn from FM5.34bn.

Finnair blamed its poor result on the Gulf war and the severe recession in Finland, which have jointly helped to undermine passenger volumes and profitability.

The company also said that improvements in profitability were only possible through restructuring and by cutting the size of Finnair's fleet, route network and operating organisation.

The airline said it will [illegible] propose a dividend for 1990-91.

● Huhtamäki, the Finnish confectionery, packaging and pharmaceuticals group, reported a 34 per cent drop in profits before appropriations and taxes in the first four months of this year to FM58m.

Mr Timo Peltola, president, said the group's interim result was undermined by a recessionary business climate in the company's key markets, including the US.

A virtual halt in drug exports to the USSR because of payment uncertainty had also held back the company.

Profit after financial items slid to FM33m from FM110m.

PAKISTAN

EMERGING INVESTMENT OPPORTUNITIES

Reforms To Boost Industrial Growth

Prime Minister Nawaz Sharif in his campaign policy to the election on October 24, 1990 pledged a series of economic reforms. Following his overwhelming victory, his Government has embarked on a course of serious development in every sector of the economy.

On November 6, 1990, Nawaz Sharif, 42, was sworn in as Prime Minister of the Islamic Republic of Pakistan, a country of an area of 796,000 sq. kms, and a population of over 110 million.

Prime Minister Nawaz Sharif

Mr. Sharif has the unique qualifications of being both a leading industrialist and a politician who has held among other portfolios, that of Chief Minister of the Government of the Punjab, the country's largest province, with 62% of the population. His family's business concern is the Ittefaq Group of Industries. It is no doubt his success as a businessman and his familiarity with the industrial set up in Pakistan, that have urged him to motivate the country's private sector to introduce large scale industrialisation aimed at reducing dependence on foreign aid with a view to eventual self-reliance.

Vision fast becoming reality

In the first six months in power, Prime Minister Nawaz Sharif can be justifiably proud of his Government's economic achievements. In a recent speech, he explained his vision: "The job of the Government is to formulate policies. It is not its job to run industry, commerce or hotels.

"We are rapidly moving Pakistan into an open market. Basically, I want minimal Government. A government that is small but efficient. Furthermore, our industrial policy is not designed to benefit industrialists and investors. In fact, it has been formulated to solve the problems now confronting the country".

Indeed in the aftermath of the election 1990, Pakistan was a country overloaded with foreign debt and restricted by Government policies that controlled small and large industries nationwide. The Gulf crisis, rising cost of fuel, an upward-bound figure of domestic inflation, and the decline of the funds hitherto remitted by hundreds of thousands of Pakistani workers in the Middle East, all contributed to the country's dismal economic scenario.

The problems with the country's industrial growth go back to the 1960s. Federal Finance Minister Sartaj Aziz, a co-architect of the new economic policies, explained that to prevent the restricted distribution of wealth, a more socialistic economy had been fashioned. The 1970s saw the Bhutto Government's nationalisation of banks, small and large industries and the subsequent creation of some 120 managerial corporations. The end result was massive losses all around.

The present Government has chalked out a clear-cut programme for the country's well-being. In sum: wide spread industrialisation, privatisation, controlled government spending, deregulation and lifting of restrictions to open the door to foreign investment trade.

"We have committed ourselves to the goal of a prosperous Pakistan and I hope that our attempts to reinvigorate the financial sector will soon bear fruit.

"I have full faith in the abilities of our private sector that they would be worthy of the confidence reposed in them by the Government.

"While the process of privatisation is being implemented my Government will take adequate measures to safeguard the rights of workers", Mr. Sharif added.

His vision is fast becoming reality. In true entrepreneurial spirit the private sector has responded to the challenge by setting up banks, bidding for airline licences, and telephone networks, building toll roads, operating ports.

An industrial power of the future

Pakistan has a labour force of 32 million. The country's quest to become an industrial power takes strength from the availability of skilled manpower, low cost, strategic location and a large consumer base.

T.Z. Farooqi, Secretary, Ministry of Industries, explained that "Pakistan offers a competitive advantage in terms of local costs, real estate prices here are much lower, indigenous technical expertise is available at every level". The country's own market for consumer goods is fast growing. This fact, coupled with demands from friendly neighbouring countries of the Gulf region, Bangladesh, Iran and China and border states of the USSR are sure to provide the essential stimulus for industrial growth.

In a recent interview to a Pakistani magazine, Prime Minister Nawaz Sharif said, "There were all kinds of fears, but the feedback now is very good. The Stock Market has reached an unprecedented level. We have already begun to attract foreign investment. Foreign exchange reserves despite all the fears about flight of capital have gone up".

First words of encouragement for these inspired reforms have come in from international financial circles. The World Bank has lauded the break with tradition: "an impressive move toward a fundamental change in economic policy in Pakistan", is how a World Bank Director, described these recent innovations.

The Asian Development Bank's representative remarked "they are tangible evidence of the Government's commitment to its ongoing economic adjustment programme".

With such favourable views all around, evidently Mr. Sharif's Government has given a clear indication that the country is "open for business".

Government-Business Relationship Enters A New Era.

Along with Prime Minister Nawaz Sharif, Federal Finance Minister, Senator Sartaj Aziz is the driving force behind Pakistan's rapid, innovative reforms. Here he speaks of his macro-economic theories directed toward creating a modern, obstacle-free government-business relationship.

Mr. Aziz believes that the private sector is best capable of handling business. The Government's job is to formulate foreign policy, maintain law and order and care for the poor, he adds.

Such being the inspiration, the Nawaz Sharif administration's greatest achievement in its six months in power has been to improve the relationship between the government and business. "They have to work together ... in a regulated format, they work at cross purposes. The government thinks it must regulate, the private sector tries to circumvent regulations. We have started to create a new relationship between the public and private sectors in which we leave them alone and they discharge their responsibilities, paying taxes, exporting more and so on, " he explains.

The effect of the philosophy is indeed evident. Mr. Aziz elaborates: "You can see it in the stock exchange which has been going up, in the increase in exports and the desire for more investment."

As part of the reforms, the Government has opened areas outside industry that were once closed to the private sector, such as telecommunications, highways, power, gas, shipping, airline and cargo handling at Qasim and Karachi ports. Parties from the Middle East have expressed interest in Pakistan's new economic order, and are eager to bring in investment. The Middle East represents a large market for Pakistani exports given its geographical proximity.

The Japanese who have a strong presence in the automobile industry in Pakistan are also looking to participate in the country's engineering industry.

All in all, Pakistan represents a safe haven in the region for foreign investment, the Finance Minister points out. "It has a large domestic market and is close to other markets. We have a great deal of natural resources ... a lot of sunshine for solar technology, water resources, good agro processing, fantastic agriculture, hydro-culture. And we have cheap and skilled labour."

Asked whether the Government intends to shift Pakistan from an agricultural to an industrial based economy, Mr. Aziz explained: "Industry will obviously grow as a proportion of the total. Right now, agriculture is about 26 percent, industry about 20 and the rest is in services.

"The agricultural share will not fall much because it will grow in total. Even our industrial sector will have a base in agriculture, such as cotton, fruit, vegetable and livestock products." Agriculture will thus remain important domestically as it provides jobs, food, fuel, and raw materials. Industry will become more important in the export sector.

"In high value industries such as electronics and computer software, we have a good base. We also have a large engineering sector, " Mr. Aziz adds.

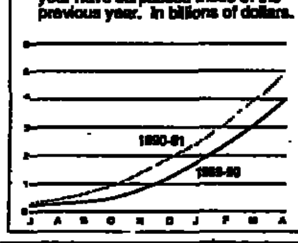
While enthusiastically guiding Pakistan's economy well into a new century, the Finance Minister expresses concern about the social aspects of development . " Privatisation must be accompanied by a parallel programme to look after the poor and the less developed areas.

We hope to have a big jump in our education, manpower and training programmes, and to provide better health care and services in rural areas", he stresses .

The enthusiastic response of business and investment circles in Pakistan and overseas to the recent reforms confirms that Mr. Aziz is on the right track. Pakistan is poised to become a growing industrial force in the Asian continent.

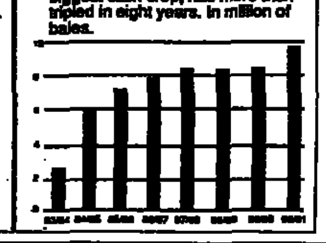
Export Growth

Export levels from July to April this year have surpassed those of the previous year. In billions of dollars.



The Rise of Cotton

The production of cotton, Pakistan biggest cash crop, has more than tripled in eight years. In million of bales.



Foreign Exchange Handling Has Never Been Simpler

There's a welcome change and a pleasant surprise for those who experienced the old tiresome procedures of foreign exchange handling in Pakistan.

Prime Minister Nawaz Sharif's announcement on February 7, 1991 of wide-ranging economic reforms includes eased rules for importing exchange as well as repatriating private and corporate benefits. It's all part of the bid to attract foreign capital.

"These reforms will create an exchange and payments system conducive to foreign investment trade and exchange resource mobilisation", a Government spokesman explains. "They will enhance investor and general public confidence, promote investments and allow greater freedom in international payments".

Great Public Confidence, More Investment Freedom

Under the old order, only foreigners could hold foreign currency accounts in Pakistan. The sweeping measures have brought in the facility that anyone can hold a foreign exchange account in Pakistan, with drawing funds, transferring money liberally. A first sign of these encouraging times appears as a poster at a Karachi Bank: "You can open your US$ account here - free of all foreign control regulations". Thus, no questions are asked as to the source of funds.

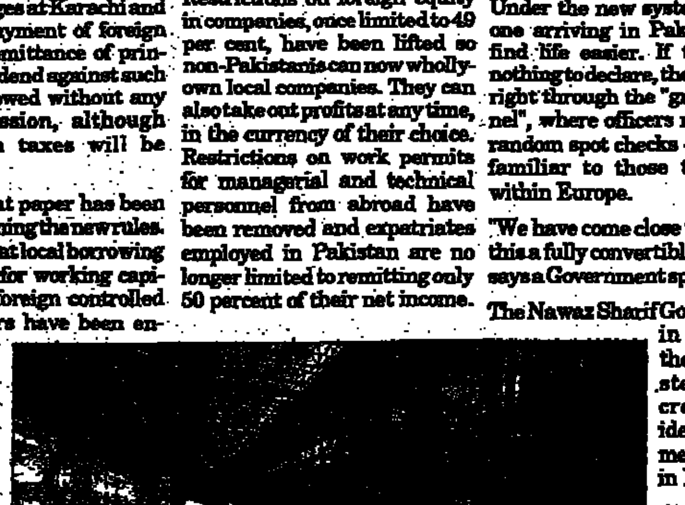
Although, the Pakistani Rupee is not as yet fully convertible, anyone can buy foreign currency in the open market with Rupees and use it to open foreign currency accounts to make payments locally or abroad.

T. Z. Farooqi, Secretary, Ministry of Industries says "There's an old saying in international finance that foreign capital comes where it is profitable and stays where it is safe".

Indeed, investors need no longer be afraid to put money in Pakistani banks for fear of restrictions in getting it out.

The economy is now totally open to investors: foreigners, local and non-resident Pakistanis can now invest in shares of companies quoted on the country's two stock exchanges at Karachi and Lahore by payment of foreign exchange. Remittance of principal and dividend against such shares is allowed without any prior permission, although capital gain taxes will be charged.

A Government paper has been released outlining the new rules. It explains that local borrowing entitlements for working capital needs of foreign controlled manufacturers have been enhanced. Limits on local borrowings for export oriented enterprises have been removed. Where companies previously needed the approval of three Government agencies to raise loans abroad, they can now negotiate these themselves, and merely inform the State Bank of the terms and conditions agreed.



Pakistan Steel, Karachi

Importers can approach banks directly to open a line of credit. For financing fixed investments, foreign controlled companies can obtain advances from local sources without prior approval of the Government or the State Bank of Pakistan. Ceilings on interest rates and fees and rules about a minimum period for foreign loans have been abolished.

The limits on payment of technical fees and royalty have been removed. Constraints on the use of foreign loans in the acquisition of technology have been eliminated.

Restrictions on foreign equity in companies, once limited to 49 per cent, have been lifted so non-Pakistanis can now wholly own local companies. They can also take out profits at any time, in the currency of their choice. Restrictions on work permits for managerial and technical personnel from abroad have been removed and expatriates employed in Pakistan are no longer limited to remitting only 50 percent of their net income.

Pak Arab Fertiliser Factory, Multan

A wide range of fiscal incentives has also been introduced. The need for import licenses for items on the free list has been abolished. A three-year tax holiday is available for all industries established in Pakistan between December 1, 1990, and June 30, 1995. Terms are even more generous in rural areas where industry is needed. There is a five-year tax holiday for investments in certain underdeveloped areas and an eight-year tax holiday for the most backward regions. In addition there will be an exemption of import duty for machinery imported to industries in rural areas, and a further exemption of sales tax for industries in backward areas.

Under the new system, everyone arriving in Pakistan will find life easier. If they have nothing to declare, they can pass right through the "green channel", where officers make only random spot checks - a system familiar to those travelling within Europe.

"We have come close to making this a fully convertible system," says a Government spokesman.

The Nawaz Sharif Government in taking these radical steps, has created an ideal investment climate in Pakistan. ■

Privatisation— Return To Dynamism

The new government quickly moved to return all state-owned industries and services to the private sector. Banks, power plants, telephone companies, cement factories, sugar mills and more will be sold off.

"We received the mandate in the 1990 elections to get on with privatisation, "said Mr. Saeed Qadir, incharge of the high-powered Commission overseeing the dismantling of the over-loaded public sector.

As a first step, over 100 industrial units will be disinvested, denationalised and deregulated.

Up for sale in December 1990 was the Muslim Commercial Bank, nationalised along with other banks in 1974. It was purchased by a consortium of 12 companies.

Next to go on the block was the Allied Bank and five others including the large United Bank and Habib Bank will be sold off in due course.

Sales planned of over 100 units

The privatisation programme extends to some ten areas encompassing state-owned enterprises dealing with cotton and rice exports, bakeries (the Roti Corporation), clarified butter, chemicals, ceramics, cement, fertilisers, energy, automobiles, steel mills, and engineering products.

Investors are being offered ports, power grids and telecommunications. Whole telephone networks will be open to private bidders local or from overseas as advertised nationwide and in papers in the Gulf and UK.

Mr. Qadir's enthusiasm is evident. He mentioned being approached by a major American financial set up, Morgan Stanley, with a view to future investment.

The concept of state-controlled economy has staunch supporters in Islamabad. The Privatisation Commission has thus set stringent guidelines in awarding bids to avoid charges of conflict of interest. First right of refusal to nationalised business will go to the original owners, and buyers will have to match the best bid.

The Government is cautious of any labour issues. It has devised an employment programme guaranteeing that the new employer cannot release labour for 12 months . "We are also offering labour a chance to retrain in other trades", Mr. Qadir explained .

Truly exciting times

Foreign industry analysts are impressed with the Government's efficient approach to the privatisation programme. Steven Steckler, Senior Manager of Price Waterhouse's Transportation and Utilities Group called it "amazing. " Speaking on Worldnet's Satellite Dialogue Programme with industry, labour and government leaders in Washington and Islamabad, he pointed out that Pakistan had "shortcut the process, " spending less time than other countries in studying and restructuring companies before selling them off.

Now A Positive Climate For Foreign Investment

As part of its bold, decisive economic reforms, the new Government has done away with obstacles to smooth the way for foreign investment.

Pakistan is to become an economic role model for the region. Such are the aims of the Nawaz Sharif Government and it is fast headed to attain its objectives. On January 5, 1991, the Prime Minister deregulated a wide range of industries to the amazement and pleasure of local business and financial circles.

A first, and radical move was the deregulation of the industrial sanctioning procedure. Now, foreign investors can liberally invest and become involved in any industry, barring arms, armaments, explosives, currency and security printing, radioactive material, alcohol (except for industrial use). They can build plants of any size, anywhere with any sponsor and without Government approval.

The present Government has added to its ongoing programme to improve every facet of the nation's industrial set up. There are plans to establish the Pakistan Quality Control and Standard Authority to upgrade design, production, and distribution of exports. The Government will also partly fund training institutions along with the private sector to improve labour and management productivity in the areas of garment, engineering, carpet manufacturing and fisheries.

Worldwide awareness created

To initiate worldwide awareness of Pakistan's bid to attract foreign investors, the Finance Ministry is sponsoring an Investment Promotion Conference Convention in Islamabad in November this year.

The World Bank and MIGA (Multilateral Investment Guarantee Agency), an affiliate of the World Bank, in collaboration with other international agencies is organising this three day international investment conference. About 250 foreign and local participants are expected to attend. Feasibility studies are already under way.

Emphasis will be put on some 50 industries, including electronics, fertilisers and pharmaceuticals, that are deemed to be of interest to foreign holders of capital.

The open-door investment policy now extends to hitherto non-traditional areas: the power, transportation and communications sectors. Private investors are invited to bid for airline and air charter licences in direct competition to the flag carrier, Pakistan International Airlines (PIA).

"We welcome proposals from developers interested in constructing toll roads", says an Islamabad official referring to plans for the construction of the 300 Km. four-lane toll highway between Lahore and Islamabad.

Foreign investors from Europe, Asia and the US have already climbed on the bandwagon in this new favourable investment climate.

A delegation from the giant Korean Daewoo Corporation has visited Islamabad, and contacts have been established with Japanese automobile and engineering concerns . The Commonwealth Secretariat in London and CIDA (Canadian International Development Agency) have also indicated their keeness.

"Ours is now the most advanced open policy in the world", claims a proud spokesman for the Finance Ministry in Islamabad.

For further information, contact:
Abdul Rauf Malik, Deputy Secretary,
Ministry of Industries, Room 139, Block A,
Pakistan Secretariat, Islamabad, Pakistan.
Tel: 92-51-822314
Fax: 92-51-825430
Tlx: 5774 MIMD PK

INTERNATIONAL COMPANIES AND FINANCE

Citicorp wins appeal of Fed's veto on insurance

By Nikki Tait in New York

EFFORTS by US commercial banks to gain entry into the insurance market took a step forward when an appeals court in Manhattan overturned a Federal Reserve Board order barring them from underwriting and selling insurance nationwide.

In the absence of any further legal challenge, yesterday's decision would let stand a Delaware state law which permits banks to sell insurance on a national basis out of their subsidiaries in the state. The Delaware law was passed in 1990, and several banks – which had long sought access to the insurance market – were quick to express interest in possibilities opened by the new statute.

Under the Delaware legislation, assets, liabilities and records of an insurance unit must be kept separate from those of the affiliated bank and banks are limited to investing no more than 25 per cent of their total capital, surplus and profit in insurance operations. A companion banking bill limits banks' marketing activities to residents of Delaware.

The legislation brought an angry response from the insurance industry and some members of Congress.

The Fed made its prohibitive ruling specifically in the context of Citicorp, the largest commercial bank in the US, and its Delaware-based affiliate, Family Guardian Life Insurance. Family Guardian had moved speedily to underwrite insurance when the Delaware law was enacted, but in September the Fed curtailed this activity. Citicorp then appealed.

Yesterday, Citicorp said it was "fairly pleased" with the appeal court decision, but it acknowledged that the Fed could now take the case to the Supreme Court for a further ruling.

The Fed declined to comment, saying that the matter had yet to be discussed internally.

The American Insurance Association hit out strongly at the decision, describing it as "shocking". It said it would support any move to seek a Supreme Court ruling.

Merger creates top US machine tool concern

By Barbara Durr in Chicago

TWO US companies have combined to create the country's largest machine tools concern. Giddings & Lewis, a leading automation systems maker, has agreed to acquire Cross & Trecker, the third largest US maker of machine tools.

In 1990 Giddings & Lewis, based in Wisconsin, recorded sales of $243m, while Cross & Trecker, based in Michigan, had $431m in sales in its 1990 fiscal year.

Cross & Trecker this year has been hit hard by declining sales to the automotive industry, suffering a net loss of $2.1m in its 1991 first half.

Mr William Fife, chairman of Giddings & Lewis, said the products of each company would complement those of the other. He added that the combined company hoped to gain better access to European markets, especially those to eastern Europe.

Cross & Trecker has a manufacturing plant and two service centres in Germany, while Giddings & Lewis has a plant in Arbroath, Scotland.

Under the agreement, reached last Friday, Giddings & Lewis will acquire each common share of Cross & Trecker for $2.85 in cash and 0.12 shares of its own common stock, a transaction valued at $5.70 per common share, or a total of about $71m.

In addition, Cross & Trecker's Series A convertible preferred stock will be assumed by Giddings & Lewis. The deal is still subject to approval by the board of directors of Cross & Trecker and the shareholders of both firms.

● Nippon Telegraph and Telephone, the Japanese telecommunications utility, yesterday announced plans to establish a subsidiary in Germany, AP-DJ reports from Tokyo.

NTT said it was opening the subsidiary in an effort to keep pace with rapid changes in the European telecommunications industry.

The new company, NTT Deutschland, will be based in Dusseldorf.

Microsoft upgrades PC system

By Louise Kehoe in San Francisco

MICROSOFT, the leading publisher of personal computer software, yesterday launched a significantly upgraded version of its disk operating system for personal computers. The system is used on an estimated 60m personal computers worldwide.

Microsoft said that more than 130 personal computer manufacturers, which together represented nearly 90 per cent of the DOS-based personal computers shipped last year, have already licensed the upgraded system program, called MS-DOS 5, for use on their products. The new program is available from many manufacturers immediately.

Analysts predicted that sales of MS-DOS 5 could boost Microsoft's revenues by up to $200m in its first full year of shipping. Microsoft's revenues were $1.18bn in fiscal 1990, ending June 30 1990.

The company's sales are expected to hit $1.8bn in the current fiscal year.

Important features of the new operating system program include improved memory management, which frees more of memory capacity for applications programs and data.

New ease-of-use features include "help screens" and facilities that enable a user to switch more easily between different application programs and retrieve files that have accidentally been erased.

"The PC industry has flourished over the past 10 years because of MS-DOS and the support it has had from PC manufacturers, software developers and PC users worldwide," said Mr Bill Gates, chairman and chief executive of Microsoft.

"With the overwhelming commitment of PC manufacturers and the record numbers of orders placed for the MS-DOS 5 Upgrade, we believe this is the largest initial demand in history we've seen for a PC software product," he said.

To meet the needs of current users of earlier versions of MS-DOS, Microsoft will make an upgraded version available through retailers for $99.95.

MacMillan seeks C$151m for capital spending plan

By Robert Gibbens in Montreal

MACMILLAN BLOEDEL, the forest products arm of the big Noranda resource group, is raising C$151m (US$132.5m) of new equity to help finance its 1991-92 capital spending programme.

MacMillan is selling 7.2m treasury shares at C$21 a share to an underwriting group led by RBC Dominion Securities. The issue will be completed by July 3. Its stock closed on Monday at around C$22, close to its 52-week high.

The company is pairing marginal operations in western Canada and shifting towards higher-value products. However, modernisation of its mills will boost capital spending.

MacMillan has suffered from the long recession in North American pulp, newsprint and timber markets, but its profits have shown more resilience than most companies in the industry.

In the first quarter, it earned C$3.8m or just enough to cover preferred dividends, against C$30m or 26 cents a share a year earlier. Sales declined to C$677m from C$781m.

Carter Hawley Hale losses grow

CARTER Hawley Hale, the US retailer which filed for Chapter 11 bankruptcy protection in February, suffered a net loss of $32.4m in the first quarter, compared with a loss of $6.6m in the same period last year, Reuter reports.

Sales for the period to May 4 declined to $430.1m from $590.9m the previous year.

Amex to seek approval for extra hour of trading

By Patrick Harverson in New York

THE American Stock Exchange revealed yesterday that it would seek approval from the Securities and Exchange Commission, the US watchdog, for a plan to extend trading for an extra hour each day.

Although exact details have yet to be finalised, Mr James Jones, chairman of the Amex, said yesterday that trading would probably be extended for an extra hour each day after the official 4pm close. Investors' buy and sell orders would be crossed at the end of the session based on the 4pm closing price.

The Amex proposal comes on the heels of a similar plan for late trading at the New York Stock Exchange, which the SEC approved last month. Late trading at the NYSE is scheduled to begin tomorrow in two separate sessions between 4pm and 5.15pm.

Both the NYSE and the Amex are responding to a growing demand from investors, particularly institutions, for the opportunity to trade US stocks later in the day.

Profits up as Telecom NZ unveils flotation details

By Terry Hall in Wellington

TELECOM Corporation of New Zealand yesterday announced a better than forecast annual profit of NZ$332m (US$195m), hours before releasing details of its public flotation. The company, which is owned by Ameritech and Bell Atlantic, is offering 19 per cent of its shareholding.

The issue will be the biggest by a New Zealand-based company and it will rank as second largest on the New Zealand Stock Exchange, after Fletcher Challenge, when it is listed on July 17.

The first instalment of 420m shares is being offered worldwide. It is planned to list the company on the New York and London stock exchanges. Of the initial instalment, 140m shares have been underwritten by New Zealand institutions and will be offered locally at between NZ$1.80 and NZ$2.

Of the remaining shares, 7m will be sold as American depository shares (ADS), with a further 7m being offered in the UK, US and Canada.

The first instalment will earn between NZ$756m and NZ$846m for the American owners, who paid NZ$4.25bn, or NZ$1.81 a share, for the company last year.

Asked about the prospect of making a profit on this tranche, Mr Tom Burns, chairman of Bell Atlantic and Ameritech in New Zealand, said he believed the price paid for the shares last year was fair. "I feel even better about the decision after today's profit announcement and forecasts," he said.

The issue is being priced at a price multiple of between 10.6 and 11.8 times earnings, which is less than the international average for telecommunications companies of 12.5.

Telecom New Zealand yesterday forecast a 21 per cent lift in net earnings to NZ$401m for the year to March 31, on revenue of NZ$2,700m, against NZ$2,432m. The total represents earnings per share of 17 cents, against 13 cents.

The dividend yield will be between 6.5 per cent and 7.2 per cent, and the 76 per cent payout will cost the company NZ$307m. As the shares contain imputation benefits for New Zealand residents, they are equal to a pre-tax dividend yield of 9.7 to 10.8 per cent.

Bell Atlantic and Ameritech are committed to selling at least NZ$500m worth of shares to New Zealand investors.

Telecom New Zealand's profit increase, of 29 per cent on last year's NZ$257m, was better than the forecast improvement of about $43m.

The chairman, Mr Peter Shirtcliffe, said revenue increases had come mainly from growth in international businesses, which rose 11 per cent; from higher earnings from directories, up 31 per cent; and new ventures such as cellular phones.

After Hong Kong, New Zealand had the highest penetration of cellular phones in the world.

Operating expenses rose marginally from NZ$1.74bn to NZ$1.79bn, while depreciation rose from NZ$389.9m to NZ$444.5m due to the company's capital expenditure programme. Capital spending was NZ$749m, against NZ$770m. Interest expenses were NZ$195.5m, and tax was NZ$145.6m.

Dr Peter Troughton, managing director, said the improved performance was due to the modernisation of the network and the focus on high-quality customer service.

The balance sheet showed total assets at NZ$4.71bn, compared with NZ$4.19bn last time and shareholders' funds at NZ$2.59bn, compared with NZ$2.46bn).

TNT shares continue fall on fears for leasing unit

By Mark Westfield in Sydney

SHARES in TNT, the Australian transport group, came under further selling pressure yesterday amid continuing fears for its aircraft leasing division and its US associate, America West Airlines.

The Arizona-based America West is seeking to defer aircraft lease payments.

The move by America West will affect the revenues of Ansett Worldwide Aviation Services, the aircraft leasing business half-owned by TNT and by Mr Rupert Murdoch's News Corporation, because America West is its largest single customer.

America West leases 11 Boeing aircraft through AWAS for a total monthly rental of US$2.3m.

The stock yesterday dropped from Friday's close of 88 cents to a low of 76 cents, with large lines of overseas selling adding to the exit of small shareholders.

TNT recovered later to close at 82 cents. This compares with the $1.52 at which it traded before a $89.4m loss for the nine months to March 31 was announced.

Ingersoll-Rand builds roads into eastern Europe

Andrew Baxter on expansion by the US construction equipment group

INGERSOLL-RAND, the US construction equipment, pumps and bearings group, is considering further acquisitions in Germany as part of its preparation for the European Community's single market reforms, and to establish a springboard into eastern Europe.

Mr Frederick Hadfield, chairman and chief executive of Ingersoll-Rand UK, said the group's 1992 target of $1bn in European sales could be achieved a year early.

Last year the company recorded sales of $930m in its "European served area", which includes the Efta countries and the industrialised parts of the Middle East and North Africa. Total worldwide sales were $3.74bn.

Ingersoll-Rand's European sales have more than doubled since 1983 as the company sought to reduce its dependence on the mature US market. Most of the rise has come since 1988, helped by acquisitions in France and Germany.

Mr Hadfield, who is responsible for Ingersoll-Rand's European construction equipment activities, said the company had made two important acquisitions in Germany to address its weak position in Europe's strongest economy.

In 1989, Ingersoll-Rand bought Klemm, a highly regarded manufacturer of specialised hydraulic drills. Last year it purchased ABG, a paving equipment manufacturer.

Mr Hadfield said Ingersoll-Rand saw Germany as the obvious gateway to the eastern bloc countries.

"They have some of the biggest companies, physically, that I have ever seen," said Mr Hadfield. "But I certainly don't see the need to buy 1m sq ft and 10,000 people. It's much better to build up from a smaller base than buy and have to cut down."

Most leading construction equipment producers are looking for ways into eastern Germany in preparation for an expected construction boom, and US companies are keen to ensure they do not miss out.

The push into Germany has been particularly important for Ingersoll-Rand as it has been hit by recession in the UK and US. Mr Hadfield said he believed Germany would continue as Europe's strongest economy, despite short-term problems caused by reunification.

Ingersoll-Rand has been less exposed than rivals to volatility in the construction equipment industry. Its gas compressors and pumps are used in the oil industry and in power generation, which often run counter-cyclically to construction equipment.

It is in gas compressors, too, where Ingersoll-Rand has made most progress on strengthening its position through a strategic alliance. In 1987 it and Dresser Industries of the US merged their struggling gas compressor businesses to form Dresser-Rand, which last year contributed $80m to Ingersoll-Rand pre-tax profits.

The two companies are about to cement links further through a plan to merge virtually all their worldwide pump interests. This would create a company with $800m of annual sales, putting it in second place worldwide behind Ebara of Japan, said Mr Hadfield.

Airline finalises sell-off plans

By Greg Hutchinson in Manila

THE Philippine government yesterday raised its limit on foreign ownership of the privatised Philippine Airlines to 40 per cent from 35 per cent. Mr Feliciano Belmonte, the airline's president, who made the announcement, also said the long-awaited sale prospectus would be ready for distribution to interested buyers at the end of this month.

Philippine Airlines, according to Mr Belmonte, is expected to lose US$27m this year due to heavy losses from its domestic operations, following a $54m net loss for the year ended March 31, 1991.

The airline's privatisation involves an offer of 800m shares, equivalent to 80 per cent of total equity, to private investors this September.

A lot of 400m shares would be available to a foreign buyer, while another 400m would be for domestic investors, including 50m shares that would be earmarked for employees of the airline.

However, those interested in taking part in the auction of 80 per cent of the airline must present a package already involving the foreign and local partners as one buying entity, Mr Belmonte said.

Northwest Airlines of the US has expressed interest in taking part in a consortium being organised by the Philippine International Commercial Bank (PCIB), a leading Philippine bank.

Another potential buyer is Banahaw International Management Corp (BIMACOR), a Manila-based consortium which is backed by a group of Philippine Airlines pilots.

Swedish steel group slides

SSAB, the Swedish state-controlled commercial steel group, announced yesterday a substantial fall in profits after financial items for the first four months of the year, to SKr206m ($32.7m) compared with SKr601m for the same period of 1990, writes Robert Taylor in Stockholm.

The company expects profits to be no more than SKr200m, against SKr954m last year.

Aoki declines to Y11.9bn

By Emiko Terazono in Tokyo

AOKI Corporation, the Japanese construction company which owns Westin Hotels and Resorts, announced a 39.7 per cent fall in consolidated pre-tax profits to Y11.9bn ($85.61m) for the business year to March 1991.

The company blamed the sharp fall in earnings on sluggish overseas real estate markets, especially in the US. On a non-consolidated basis, the company has recently reported a 5.8 per cent rise in pre-tax profits to Y15.5bn.

Consolidated sales fell 0.5 per cent to Y402.1bn, while after-tax profits plummeted 57.6 per cent to Y3.5bn on losses in its US subsidiary.

Sales in Aoki's real estate business plunged 90.7 per cent to Y8.1bn, while its other operations showed strong growth. Sales in construction rose 27.1 per cent to Y329.5bn; shipping lines rose 12.2 per cent to Y3.9bn; and hotels rose 12.2 per cent to Y60.5bn.

The company said that Westin, which operates 67 hotels in 11 countries, posted strong results despite the recession in the US. Operating profits rose 6 per cent.

Aoki, famous for its extensive overseas investments, said overseas sales fell 31 per cent to Y110.5bn.

For the current year ending March 1992, Aoki said it expected a 26 per cent rise in pre-tax profits to Y15bn, on a 17 per cent rise in sales to Y472bn.

INTERNATIONAL CAPITAL MARKETS

Mexico sells state-owned bank for $203.7m

By Damian Fraser in Mexico City

THE Mexican government has sold Multibanco Mercantil de Mexico to the financial group Grupo Financiero Probursa for $203.7m, making it the first of the 18 state-controlled banks to be privatised.

Grupo Financiero Probursa, headed by the brokerage Casa de Bolsa Probursa, bought 77 per cent of the bank's capital at $3.05 a share, 2.66 times asset value per share.

The deal turns Probursa, by stock market value Mexico's fourth largest brokerage last year, into Mexico's first integrated financial group.

Probursa plans shortly to buy an insurance company, and is actively seeking partnership with a foreign bank, according to the company's president.

Mercantil is the 14th largest of the 15 banks listed on the Mexican stock market. It has 82 branches mainly in Mexico City and Monterrey, the capital of the state of Nuevo Leon. In 1990 operating profits were 86,600m pesos, a 70 per cent increase on 1989.

The government is expected to announce shortly the winning bidders for Banca Cremi and Banpais, the next two Mexican banks to be privatised.

The next bank to be sold is Banamex, Mexico's largest bank, which will be sold, along with Confia, Banco Oriente and Bancreser. At 2.66 times book value, Banamex would be worth over $3.5bn, although its stock market value is presently closer to $2.5bn.

San Miguel in loan for 598m pesos

By Greg Hutchinson in Manila

SAN MIGUEL, the Philippine brewing conglomerate, and a syndicate of banks and financial institutions yesterday signed a loan agreement for 598m pesos ($21.5m) to help fund the company's expansion and modernisation programme.

The loan was drawn from a facility extended by the Export-Import Bank of Japan to the Development Bank of the Philippines (DBP) under the $2bn ASEAN-Japan Development Fund. The Philippines is the third ASEAN country to tap the $2bn fund, launched in 1987.

The term of the loan is for 10 years inclusive of a three-year grace period. It will carry an interest rate of 1.34 per cent over what the DBP charges on the funds it lends to other financial institutions, currently 18 per cent. The rate is reviewable every three months.

San Miguel said the loan would be used to finance the expansion and modernisation of production plants. Two months ago San Miguel shareholders rejected a debt conversion plan aimed at funding expansion.

Japan securities reform may apply to foreigners

JAPAN'S Finance Ministry may allow foreign banks and securities companies to fully own their securities and banking subsidiaries in Japan, if its ongoing liberalisation of Japan's financial system permits domestic institutions to do so, according to a ministry official, AP-DJ reports from Tokyo.

Currently the ministry lets foreign banks hold no more than a 50 per cent stake of their securities arms in Japan.

The interest of foreign securities firms in their bank subsidiaries has the same restriction.

However, if reform allows Japanese banks and securities firms to use wholly owned subsidiaries to cross the legal barrier separating the businesses, "it would be logical to extend the same system" to the foreign institutions, the official said.

Japan is moving towards lowering the barrier between its securities and banking businesses, with financial system reform likely to allow both to do business in the other's sector through fully owned subsidiaries.

Observers expect the ministry by 1993 to issue its final report on reform, urging cross-participation through subsidiaries.

● Nakadachi Securities will start brokering interbroker trading in US Treasury securities in Tokyo on July 17.

The 30-year bonds and two to 10-year notes will be the first foreign securities for the brokers' broker to handle, an official said.

Treasuries move narrowly ahead of data release

By Patrick Harverson in New York and Simon London in London

BOND prices were little changed in quiet trading yesterday morning, with dealers and investors staying on the sidelines awaiting the important economic data due later this week.

At midday the benchmark 30-year Treasury bond was up $\frac{1}{32}$ at 96$\frac{1}{32}$, to yield 8.468 per cent. The two-year note was slightly weaker, down $\frac{1}{32}$ at 99$\frac{7}{32}$, yielding 6.973 per cent.

The slight rise in the long bond was attributed to sporadic short-covering by dealers and the fact that Mr Alan Greenspan, the Federal Reserve chairman, chose not to repeat his recent positive comments on the economy at yesterday's hearings before a Congressional committee.

Some investors may have also bought bonds in the belief that the price, for the moment, has reached its short-term floor with the yield hovering just below the important 8½ per cent mark.

Analysts say the market will not move much until everyone has had a chance to see Thursday's retail sales and producer prices figures and Friday's consumer prices and industrial production data.

■THE upward trend in UK government bond prices was held back yesterday as the Bank of England signalled that a cut in interest rates may not take place this week.

The Bank supplied £530m nine-day liquidity to the money market at an unchanged interest rate of 11.5 per cent, dampening speculation of an early easing of monetary conditions.

The Financial Times publishes a more comprehensive table of benchmark government bonds from today. The table now includes benchmark bonds from some of the high-yielding European markets, namely Spain, Italy and Denmark, which have attracted considerable recent interest from foreign investors. It also includes a revised selection of benchmark bonds from the UK, Germany and Australia. For example in the UK, a new short-dated gilt and a 10-year benchmark gilt have been included.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		12.000	11/01	105.5874	+0.315	11.08	10.91	10.66
BELGIUM		10.000	08/00	104.7000	-0.100	9.21	9.14	9.11
CANADA *		9.750	06/01	99.3250	-	9.86	9.71	9.58
DENMARK		9.000	11/00	98.8250	-0.025	9.17	9.14	9.15
FRANCE	BTAN	9.000	02/96	99.4853	-	9.11	9.08	8.92
	OAT	9.500	01/01	102.5800	+0.110	9.07	9.00	8.75
GERMANY		8.375	05/01	100.1300	+0.100	8.35	8.31	8.36
ITALY		12.500	03/01	99.2100	-0.210	12.63	12.49	12.99
JAPAN	No 119	4.800	06/99	87.8544	+0.136	7.23	7.03	7.05
	No 129	6.400	03/00	97.7207	+0.161	6.82	6.64	6.62
NETHERLANDS		8.500	03/01	99.0500	+0.070	8.64	8.62	8.62
SPAIN		11.900	07/96	99.8500	-0.100	11.99	11.98	11.57
UK GILTS		10.000	11/96	98-15	-01/32	10.37	10.41	10.71
		10.000	02/01	97-05	+00/32	10.47	10.52	10.23
		9.000	10/08	90-22	+00/32	10.15	10.22	9.82
US TREASURY *		8.000	05/01	98-03	+01/32	8.28	8.14	8.11
		8.125	05/21	96-06	+03/32	8.48	8.33	8.32

London closing, *denotes New York morning session. Yields: Local market standard. Prices: US, UK in 32nds., others in decimal. Technical Data/ATLAS Price Sources

GOVERNMENT BONDS

The move had a sobering effect on the market, which had earlier interpreted slightly better than expected producer price data for May as a sign of an imminent cut in rates.

Manufacturing output prices rose by 0.4 per cent in May, for a year-on-year rise of 6 per cent.

This compares with a year-on-year rate of 6.2 per cent in April and 6.3 per cent in March, confirming that output inflation is at last on a downward trend.

The release of the figures caused money market interest rates to fall to 11 per cent, although they rebounded to stand at 11.2 per cent by the close in response to the Bank of England's activities.

Long-dated gilt prices rose around ¼ of a point on the day but closed below the the day's highest levels.

The benchmark 11¾ per cent gilt maturing 2003/2007 closed at 108¾, up $\frac{1}{8}$ on the day, for a yield of 10.476 per cent.

■JAPANESE government bonds continued to drift lower yesterday as the strength of the dollar on the foreign exchange markets dampened hopes of an early cut in interest rates.

The benchmark government bond issue No 129 traded in London on a yield of about 6.82 per cent in late afternoon yesterday against a close of 6.805 per cent on Monday.

However, prices ended slightly above the day's lowest levels as investors looked to buy cheap paper.

■THE German government bond market was subdued by the weakness of the German currency on the foreign exchange markets, with few investors willing to commit fresh funds to D-Mark denominated assets.

The September long bund futures contract on the London International Financial Futures Exchange closed at 85.60, up from 85.43 yesterday.

However, volume was only moderate at 18,356 contracts.

Recent international support for the German government bond market appears to be wavering as some investors switch back into French government bonds.

Concern about the French government's fiscal stance contributed to a widening of the long yield spread between the French and German markets in May from a low of 42 basis points to around 80.

However, the yield spread has started to narrow again. Yesterday it stood at 71 basis points.

FT/AIBD INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 6:10 pm on June 11

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABBEY NATIONAL 8 7/8 93	150	101¼	102¼		7.89
ALBERTA PROVINCE 9 3/8 95	600	103	103⅜	-⅛	8.50
AUSTRIA 8 1/2 00	400	98⅞	98⅞	+⅛	8.60
BANK OF TOKYO 8 3/8 96	100	98⅝	99⅛		8.72
BELGIUM 9 1/8 92	400	101⅛	102⅛	-⅛	7.78
BFCE 7 3/4 97	150	97⅞	98⅞		8.24
BNP 8 5/8 94	300	101⅛	101⅞		8.10
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
BAYERISCHE VEREINS INT 7 94 LFr	600	94¼	95¼		9.25
KOEDIETCORP 7 93 LFr	1000	95¼	96¼		9.51
WORLD BANK 8 96 LFr	1000	96	97		9.04
AMRO BANK 6 1/4 92 Fl	150	96¼	96⅞		9.85
RABOBANK 5 3/4 93 Fl	150	94⅛	95⅛		9.32
ALBERTA PROVINCE 10 92 C$	500	100⅛	100⅝	-⅛	9.83
BCE INC 9 5/8 93 C$	300	99	99⅛	+⅛	10.21
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

INTERNATIONAL CAPITAL MARKETS

STET plans deal of $275m to cut state holding

By Sara Webb

STET, Italy's state-controlled telecommunications holding company, plans an international equity offering of about $275m which will reduce the state's holding in the company and increase foreign ownership.

STET, one of the largest telecommunications groups in Europe with an estimated market valuation of about $8bn, is controlled by IRI, the Italian state holding company, but has a portion of its shares quoted on the Milan stock exchange.

The offering is a secondary sale on behalf of IRI, which is selling some of its non-voting shares to foreign investors to increase international ownership of the company. Part of the offer will be made in the US as a private placement under the Securities and Exchange Commission's Rule 144a.

The offer is for 16m units, each of 10 savings shares (or non-voting shares) and a warrant for a further 10 savings shares. The units will be sold at a slight premium to the market. Lehman Brothers is the lead manager and Banca Commerciale Italiana (which is owned by IRI) is co-lead manager. Syndication will be carried out by a very small group of investment houses.

STET has two classes of shares: ordinary voting shares, which account for about 70 per cent of the capital, and savings (or non-voting) shares. The dividend on the savings shares is currently L120 compared with L100 on the ordinary shares.

IRI owns 69 per cent of the ordinary shares and 52 per cent of the savings shares. Following this offering, IRI will hold 41 per cent of the savings shares. If all of the warrants are exercised, IRI's savings shares holding will be reduced to 30 per cent.

INTERNATIONAL EQUITY ISSUES

STET is the monopoly supplier of most telecommunications services in Italy. It owns 80 per cent of Italtel, the telecommunications equipment manufacturer, and 59 per cent of SIP, the state telephone utility. Further details of the offering will be released in Milan on June 18.

● Hellenic Bottling Company, which manufactures and distributes soft drinks in Greece, raised Dr8bn from international investors in an international equity offer which closed last week. The offer – for 1.105m shares at Dr4,500 each – was ten times oversubscribed.

Some international investors who were disappointed in the international offering managed to buy shares through HBC's domestic offering, according to Mr Adam Young of J. Henry Schroder Wagg, lead manager for the syndicate of international banks which underwrote the international offer. The domestic offering was for 3.47m bearer ordinary shares.

HBC is controlled by Greek Cypriot family interests who own 79 per cent following the share offering.

● The Taiwan Fund, a closed-end investment company listed on the New York Stock Exchange, is offering a $43.5m tranche of shares. The 1.86m new shares will be sold at a price of $23¾ per share through a syndicate of underwriters lead managed by Kleinwort Benson and Asian Capital Partners.

Fannie Mae in mortgage issue

THE Federal National Mortgage Association has issued for the first time $200m of mortgage-backed securities tied to the London interbank offered rate (Libor), Reuter reports from New York.

The securities are backed by adjustable-rate mortgages (ARMS) provided by RAC Mortgage Funding and Western Federal Savings. RAC exchanged $200m of 30-year ARMS tied to Libor for Fannie Mae mortgage securities. Western swapped $100m of ARMS.

German bourses bid for the technological heights

Katharine Campbell on moves to a shake-up as the gentlemen's club nears the European single market

Germany's stock market big bang has been a slow-fuse affair.

But there are signs that a process characterised more by noise than creativity is gathering speed.

For last Friday's meeting at the Frankfurt stock exchange opened the way for a more effective electronic securities trading system and put in place the framework for rationalising the regional character of the German stock exchanges.

Efforts have been underway for years to advance securities trading beyond the gentlemen's club of eight regional markets from Bremen to Munich – open until recently for just two hours a day – which split up liquidity between themselves via an antiquated floor and paper-based system bolstered by scores of public-service brokers.

But so entrenched were regional interests that modernisation plans have been plagued by split loyalties, false starts and half-hearted compromises.

Despite the German stock market's high degree of dependence on foreign investors, efforts to cater to their needs invariably became bogged down in provincial squabbles leaving the way clear for a high proportion of D-Mark business to wander abroad.

There is now a palpable sense of urgency, however. London and particularly Paris look highly efficient operations that will pose more of a threat with the advent of the single European market.

By comparison, Germany looks (in shares) costly, at times illiquid and ineffectively regulated.

Last week's plan, the brainchild of the big Frankfurt-based banks, against whose power the brokers and regional exchanges inveigh largely in vain, involves an integrated electronic system for trading the top 30 blue chip stocks, the most liquid government bonds and equity and fixed-income derivatives.

It would operate, at least for the time being, alongside existing floor operations, with regional stock and bond business still conducted regionally. It would concentrate liquidity, be easier to regulate, and in the long run be cheaper.

The first country-wide screen-based system was the DTB, the options and futures market, which went on stream 18 months ago.

While the DTB is doing well, this relatively sophisticated system was born without the support of an efficient underlying market.

Ibis, a share information system organised by the banks at around the same time, failed miserably.

Indicative prices on the screen were often withdrawn hastily when counterparties attempted to deal, and consequently little real business passed over the new medium.

The official and independent brokers meanwhile, fearing for their livelihoods and suspicious of big bank influence, began to craft their own competing systems.

An upgraded fully electronic Ibis was introduced with a greater degree of success this April and now handles some 10 per cent of daily share trading in Germany.

But as Mr Rolf Breuer, the Deutsche Bank managing board member closely involved with these developments, admits: "It [Ibis 11] is very primitive indeed. It was a matter of first aid rather than inventing an instrument we can be really proud of into the next century." Despite the many millions of D-Marks spent on the Ibis systems, the move to computerisation remains controversial – for the regional exchanges loath to give up important business areas as well as for the brokers as an endangered species.

To help forge a consensus, the Frankfurt Stock Exchange commissioned a study, with the help of a Mannheim university professor versed in the intricacies of computerised exchanges, to act as a "moderator" between the parties involved in defining the shape of the future marketplace.

While the content of the study, discussed at last week's meeting, remains confidential, it addressed such explosive questions as the brokers' future.

But the direction of Mr Breuer's thinking at least was clear when he commented recently: "They will be helped to find security market-related jobs. I don't see an unemployment problem."

There is still much cajoling to be done before any such plans come to fruition. It has yet to be agreed how exactly the regional exchanges can be accommodated – perhaps via a shareholding – in the Deutsche Börse, the pan-German holding company Frankfurt proposes.

In addition to amalgamating the array of hitherto separate clearing and settlement and data processing operations, the new structure is supposed to include the DTB. While the suggestion came as something of a surprise to the DTB, its executives will have a tough time if they wish to resist, given that the exchange's shareholders are the same big banks that are calling the shots over equity market developments.

Over the summer a technology consultant will study the feasibility of combining the various systems – Ibis, an order-routing operation in progress called Boss, and, probably, the DTB.

It has been immensely costly in terms of time and ill-fashioned interim solutions to get to this point. It remains to be seen how quickly efforts can be wholeheartedly redirected to catching up.

Rolf Breuer: 'It was a matter of first aid.'

Dealers report little demand for $250m Phillip Morris offering

By Tracy Corrigan

THE trend for smaller, retail-targeted issues appears to be gaining ground in the Eurobond market, although some underwriters are sceptical about how much paper is being placed.

Corporate borrowers are returning to the sector, but the still fragile market for corporate debt is in danger of being pushed too hard by aggressive funding for weaker credits, according to dealers.

A $250m offering for Phillip Morris, the US tobacco company, was widely considered too tightly priced.

Deutsche Bank Capital Markets was lead underwriter of the issue of 8⅝ per cent five-year bonds, priced to offer a yield spread of 59 basis points above the comparable Treasury.

Although Phillip Morris is viewed as a borrower which can achieve premium pricing, because of the high level of name recognition among European retail investors, most underwriters reported little or no demand for the deal at this level.

"It is a triple-A pricing for a single-A name," one underwriter said. "Its reputation is better than its rating, but not by that much."

Most banks said the company's first dollar offering since 1988 should have been priced 10 to 20 basis points wider, comparing it with a recent issue for Ford, which is currently trading at a yield spread of 87 basis points over the curve.

INTERNATIONAL BONDS

The borrower recently brought a 10-year deal in the US which cleared at around 80 basis points above the comparable Treasury yield.

Dealers in the US said five-year paper could be sold there at a spread of around 65 basis points. However, the corporate market is generally thought to be rather better in the US than in Europe.

Underwriters will break even (that is, lose all their fees) at around 70 basis points.

Even at that level "the deal is a tough sell", one underwriter said.

A number of banks declined to participate in the deal or were downgraded from co-lead to co-manager level.

Deutsche Bank said that it expected retail investors to buy the issue over time, pointing out that a deal for the unrated Dutch State Mines had tightened by 20 basis points from its launch spread of 78 basis points.

Goldstar, the Korean hi-fi manufacturer, launched a $70m convertible offering, via Salomon Brothers.

The bonds will pay a coupon indicated at 3½ per cent and the conversion price will be set at an indicated premium of 23 per cent. The deal was described as realistically priced, given the relative weakness of the market. The Korean stock market is currently closed to foreign investors, but may be opened next year.

Two more Canadian dollar deals emerged. Recent issues have been performing well, as the sector still offers a two point pick-up over the US market.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Phillip Morris Cos.Inc.(a)†	250	8⅝	101.03	1996	1⅞/1¼	Deutsche Bk Cap.Mkts.
Sekisui House(a)♦	200	4½	100	1996	2¼/1½	Nomura Int.
Asahi Tec Corp(a)♦	70	4⅝	100	1995	2¼/1½	Nikko Secs.
Goldstar Co.(f)§	70	(3½)	100	2006	2½/1½	Salomon Bros.
CANADIAN DOLLARS						
GECC(b)†	150	10	100.725	1996	1⅞/1.6	Goldman Sachs
Credit Lyonnais(a)†	150	10⅜	101.405	1996	1⅞/1.725	Merrill Lynch Int.
D-MARKS						
Sekisui House(a)♦	250	4	100	1995	2¼/1½	Yamaichi Bk GmbH
Soc.Generale Acc'tance(c)†	80	14	100	1993	-	Soc.Gen.Elsaessische Bk
Landwirtschaftliche R'bk(d)†	50	10	101½	1994	1.6/1	Merrill Lynch AG
SWISS FRANCS						
Kinki Sharyo(e)★★♦	60	2⅞	100	1996	-	Credit Suisse
Toyo Chemical(a)★★♦	40	2⅝	100	1996	-	Banque Paribas (Suisse)
LIRE						
GECC(a)†	150bn	11⅞	101.60	1996	1⅞/1⅛	IMI Bank (Lux.) SA
YEN						
NEC Corp(a)†	30bn	7.15	101⅜	1997	1⅞/1.675	Daiwa Europe
NEC Corp(a)†	30bn	7.15	101⅜	1999	2/1⅜	Nomura Int.
Asahi Chemical Ind.(a)†	20bn	7.2	101⅛	1998	1⅞/1.675	Daiwa Europe

★★Private placement. §Convertible. ♦With equity warrants. ‡Floating rate note. †Final terms. a) Non-callable. b) Fungible with existing C$150m deal. Non-callable. c) Redemption linked to Dax index. Non-callable. d) Redemption either DM10,000 per 10,000 bond or at option of issuer, 38 shares of Commerzbank plus DM44. Should share price rise to DM320 or above for any 2 consecutive days, then bonds will be redeemed at par. e) Callable 27/6/94 at 101% and 27/6/95 at 101½%. f) Put option after 5 years to yield 7½%.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

● The Financial Times Ltd 1991. Compiled by the Financial Times Ltd in conjunction with the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS — Tuesday June 11 1991

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	38	25	20
Corporations, Dominion and Foreign Bonds	0	6	14
Industrials	317	187	1,027
Financial and Properties	182	61	495
Oils	19	13	61
Plantations	1	0	9
Mines	62	20	79
Others	47	46	65
Totals	666	358	1,770

LONDON RECENT ISSUES

EQUITIES

FIXED INTEREST STOCKS

RIGHTS OFFERS

LONDON TRADED OPTIONS

FIXED INTEREST

AVERAGE GROSS REDEMPTION YIELDS

TRADITIONAL OPTIONS

● First Dealings June 10
● Last Dealings June 21
● Last Declarations Sept. 12
● For settlement Sept. 23

For rate indications see end of London Share Service

Calls in Aran Energy, Brown & Jackson, Business Tech., Control Sec., Glaxo, Stakis and Tusker Res. Puts in Lloyds Abbey Life and Stakis. Put and call in Oliver Res.

UK AND IRISH COMPANY NEWS

All-round progress at Northern Foods

By Maggie Urry

DOUBLE-DIGIT percentage increases in the operating profit of each of its four divisions enabled Northern Foods to report a 17 per cent rise in its pre-tax balance for the year ended March 31 1991.

The outcome was £105.4m, compared with £90.2m, and the shares responded with a 20p rise to 470p, an all-time high.

Mr Christopher Haskins, chairman, said he found it "very difficult not to be smug" about the results, describing the year as one of "excellent progress". The current year had started well and he was confident the group's strategy had "plenty of staying power" for the next five years.

Turnover rose 8.5 per cent to £1.19bn (£1.09bn), although this reflected some elimination of low margin business. Close to 40 per cent of sales go to the group's four largest customers, the food retailers Marks and Spencer, Tesco, J Sainsbury and Safeway, with another 20 per cent accounted for by door-step milk deliveries.

Operating profit margins rose from 8.6 per cent to 9.4 per cent and Mr Haskins said they should climb to over 10 per cent within three years.

Interest charges moved up from £1.4m to £3.5m, but that reflected the £69m spent on acquisitions during the year. Mr Martin Clark, finance director, said that after financing costs the acquisitions contributed about £250,000 to pre-tax profits. Capital expenditure of £61m was made over the year, likely to rise to over £80m in the current year.

Despite the £130m of investment and acquisitions, the group's net debt rose only £32.5m, leaving borrowings at 17.5 per cent of net assets.

The reduction in corporation tax rates helped earnings per share to rise by 18.5 per cent to 34.66p (29.25p). A final dividend of 8.5p gives a total 16 per cent higher at 14.5p (12.5p).

The largest operating profit increase came from the convenience foods division, up 40 per cent to £21.8m. Mr Clark said the gain would have been about 25 per cent excluding acquisitions. The division includes recipe dishes, yogurt and dairy desserts, sandwiches and filled rolls, food distribution and speciality cakes.

The dairy division, which contributed 45 per cent of group operating profits, increased its profits by 10 per cent to £49.9m. The doorstep milk delivery business went well, as did sales of milk to supermarkets. However, weak prices and a shortage of milk affected the milk manufacturing side, leaving profits there unchanged.

The meat business increased profits 21 per cent to £22.1m with strong growth at Pork Farms, which makes pork pies, and a £1m contribution from Palethorpes, a pie and pasty maker bought from Sainsbury during the year. The chicken side was hit by falling prices and produced an unsatisfactory return, but Mr Clark said the business was not as hard hit as others as it bought in two-thirds of its chickens.

In the grocery division Fox's Biscuits had a strong year, and the division raised profits by 17 per cent to £17.8m, pushing the operating margin above 10 per cent.

See Lex

Weak markets reduce BSS to £13.34m

By Clare Pearson

BSS, the commercial, industrial and domestic heating company, saw all its markets weaken during the year to end-March and pre-tax profits fell by 8.2 per cent from £14.53m to £13.34m.

The result was scored on turnover up 13 per cent to £219.7m (£194.22m). Most of the increase reflected domestic heating acquisitions in the previous year, with the balance due to inflation and a small increase in volume.

Mr Ian Phillipps, chairman, said the commercial and industrial market, which had lagged behind the domestic market, had weakened during the second half, and he expected it to weaken further over the coming months.

Meanwhile, the domestic market, which should lead the recovery, appeared to have stabilised. But published statistics showed that it was some 23 per cent below its peak in 1988.

"All in all, 1991-2 shows every sign of being a very difficult year in the marketplace," he said.

Trading profit was broadly stable at £16.17m (£16.16m) but interest charges were up at £3.83m (£1.63m). Mr Allan Milne, chairman, said that was because of an increase in borrowings at the start of the year, to fund the Labone and Heatek acquisitions.

After that, a timing change in payment of corporation tax had led to a cash flow of some £8.5m. Mr Milne said that was a one-off effect.

On share capital enlarged by a 1-for-10 rights issue in October 1989, earnings fell to 41.8p (47.5p). The final dividend is held at 11.5p making an unchanged 17.25p for the year.

● COMMENT

Firmly focused on the UK, BSS certainly painted a dismal picture with its results yesterday, and it has entered this year burdened with an uncomfortably high level of borrowings and facing ever-toughening price competition. But on the bright side, shareholders can comfort themselves with the reflection that there are believed to be some much more severe casualties in its markets and BSS says it has increased its market share. Its current year fortunes will depend greatly on when the housing market picks up again, since demand for domestic heating rises at the start of an economic upturn while the commercial and industrial side lags it. Assuming some improvement by the end of the year, the company should achieve pre-tax profits of about £11.5m. That puts the shares on a prospective p/e of more than 9, which seems reasonable.

Sale Tilney arm seeks winding up order

By Clare Pearson

SHAREHOLDERS in Sale Tilney, the troubled mini-conglomerate, suffered another blow yesterday when it said Monument, its Isle of Man insurance underwriting subsidiary, was seeking a winding up petition from the Manx court after having ceased all underwriting and payment of claims.

Sale Tilney's share price nose-dived 13p to 19p after the announcement yesterday.

It said Monument had net liabilities of £2.75m as at April 26 compared with net assets of £77,000 in the last audited accounts at November 30.

If its petition is granted, Monument hopes to put in place a scheme of arrangement whereby its creditors will agree to rolling over their liabilities. As part of this, Sale Tilney said it might make a capital contribution.

The company said the maximum amount that could be claimed in guarantees made by the parent company was £30.6m. However, such claims would only be to the extent that they were not met by Monument's own insurance funds or those of its reinsurers.

The company said the problems at Monument and "difficult trading conditions across the group" meant it would report a a pre-tax loss for the current year.

Yesterday's announcement came after Sale Tilney had included a £2.4m provision for Monument's underwriting losses in last year's accounts. That, together with exceptional losses in other parts of its group, meant the company plunged into a pre-tax loss of £9.62m (£5.02m profits).

Mr Andrew Coppel, former finance director of Ratners jewellers, was appointed as a "new broom" chief executive in October last year.

Brent Walker relaxed about £20m capital advance delay

By Maggie Urry

BRENT WALKER, the leisure group which last week put proposals for a rescue refinancing to its 47 banks, was last night relaxed about receiving a £20m working capital advance from its banks by the end of the week.

Some of the banks involved had already agreed to put up their share of the advance but others were taking longer to decide. Brent Walker shares rose 2p to close at 25p yesterday.

The group needs the short term funds before the June 22 date by which the banks, owed £1.3bn by the group, are due to give a response on the restructuring proposals.

Meanwhile, holders of the £101.9m convertible capital bond are talking to the group and its advisers on the offer made to them under the proposals. So far bondholders have not agreed to the suggestion that they convert their bonds to ordinary shares at 10p, rather than the original conversion price of 140p, and take the rest of the capital value in preference shares.

A compromise is expected to be reached, however. Bondholders are unhappy that they are being offered second preference shares while the banks would get first preference shares under the proposed scheme. Bondholders feel their preference shares should rank equally with those of the banks.

The largest bondholders agreed to a postponement until tomorrow of the first interest payment due on the bonds, which were issued last November, and this could be rolled over again if agreement has not been reached by Thursday.

Jefferson Smurfit, the Irish-based paper packaging group, said in its accounts, published last week, that it could not value the bonds until the restructuring was agreed. It included the bonds in its balance sheet, dated January 31, at I£14.7m, their then market value. Yesterday the bonds were quoted at 38 compared with a 100 issue price.

Smurfit invested £15m in the issue and Mr Michael Smurfit, its chairman, personally invested £10m.

Fyffes seeks I£60m to provide funds for future acquisitions

By Kieran Cooke in Dublin

FYFFES, the Ireland based fruit importing company, has announced a rights issue with the aim of raising I£60m (£55m) "to take advantage of any large acquisition opportunities that may arise and to provide a strong base for organic expansion."

News of the issue – offered on the basis of one convertible preference share for every five ordinary shares – gave rise to speculation about a possible move by Fyffes on PPI Del Monte, the fruit growing and distribution subsidiary of the Polly Peck group. Fyffes has given no public indication of its interest but an acquisition of such a size would fit into its expansion plans, particularly in Europe.

If PPI Del Monte is put up for sale there is speculation that a price of between £250m and £300m might be put on the operation. Fyffes would have a cash hoard of between I£90m and I£100m following the rights issue.

Fyffes also announced its results for the six months to April 30 1991. Pre-tax profits were up 1.5 per cent to I£9.38m (I£9.23m) on sales ahead 24 per cent to I£271.7m (I£219.3m).

Earnings per share came to 2.22p (2.06p) and the interim dividend is 0.3226p (0.2933p).

In the middle of last year Fyffes won a long drawn out "banana battle" over banana supplies from Honduras, an export trade traditionally dominated by Standard Fruit and Chiquita International Brands, two US companies.

Fyffes has grown rapidly in the last ten years from being a fruit and vegetable distributor in the border counties of the Irish Republic to one of the top ten Irish public companies. Spearheading operations has been Mr Neil McCann, chairman of the company, and two sons. Mr John Callaghan, a senior member of a Dublin accountancy firm, has now been brought in as group chief executive.

See Lex

Brokers cut Ratners forecasts

By Maggie Urry

SHARES IN Ratners, the jewellery retailer, dipped 7p to 154p yesterday, against the trend of a rising stock market, as stockbrokers cut their forecasts of profits for the year to end January 1992. County NatWest WoodMac, the company's stockbroker, downgraded its forecast from £130m to £112m, the same as the company achieved in 1990-91, including £2m from property.

Kleinwort Benson, which claims to have been first in downgrading yesterday, took an even more bearish view of the group, cutting its forecast from £125m to £100m.

James Capel reduced its estimate from £120m to £104m.

On the County NatWest forecast earnings per share would be 19.1p, for a prospective p/e on yesterday's closing price of 8.1. Analysts expect the dividend to be at least maintained, giving a prospective yield of 8.7 per cent.

They said they had reduced forecasts because of poor sales in the UK business – which are believed to be down 5 per cent on a like-for-like basis so far in the current year – while costs are rising, thereby squeezing margins and pushing UK profits down.

Although all UK retailers are suffering difficult trading conditions, part of the poorer sales performance at Ratners was put down to a well-publicised speech by Mr Gerald Ratner, chairman, in April when he jokingly disparaged some of the products sold in some of the group's stores.

He said an imitation book with curled up corners was in poor taste and that a £4.95 cut-glass sherry decanter with six glasses was "crap".

Sales in the US are said to be flat on a like-for-like basis, but the inclusion of Kay Jewelers, acquired last year, is expected to push up US profits, to exceed those from the UK for the first time.

LVMH to buy Guinness shares

LVMH MOET Hennessy Louis Vuitton, the French luxury goods maker, intends to buy up to 23.4m Guinness shares at up to £10 a share each to bring its stake back up to 24 per cent, the level agreed in their cross-holding arrangement.

"This it totally routine," said Mr Robert Leon, a LVMH director. "This is being done in perfect accord and co-ordination with Guinness."

Mr Leon said relations between LVMH and Guinness, the British drinks group, were excellent and the two groups had no intention of ending the cross-holding arrangement. Guinness said it welcomed the move by LVMH to equalise the cross-holdings.

LVMH's stake in Guinness fell to 21.7 per cent following the conversion of Guinness convertible preference shares and convertible loan stock into ordinary shares.

Guinness said holders of a nominal £40.6m of loan stock and £202.2m of convertible preference shares lodged notice of conversion on May 31 and June 3.

As a result, 14m new Guinness shares will be alloted to the loan stock holders and 56.6m to the preference share holders, increasing the ordinary capital to 973m shares.

Guinness shares jumped on the news of LVMH's purchase plan, finishing the day up 30p at 996p. S.G.Warburg is bidding for the extra 23.4m shares until June 21.

Correction

Costain Group

Sir Godfrey Messervy retired as chairman of Costain Group last November. An article in yesterday's Financial Times described him as still occupying this position.

UK COMPANY NEWS

Anglian Water cautious with 14% dividend rise

By Clare Pearson

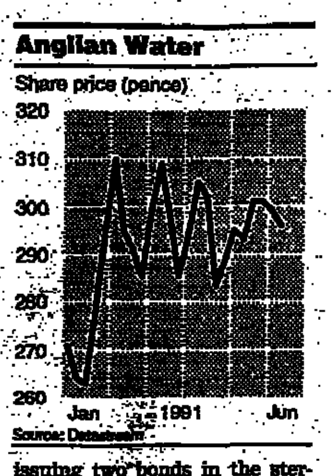
ANGLIAN WATER yesterday reinforced its stock market image as one of the most conservative of the water companies by announcing a full-year dividend increase of 14.5 per cent at the bottom of the expected range for the sector.

The final payment of 11.7p to make 17.5p (15.31p) for the year to March 31, was reported with pre-tax profits ahead to £152.6m (£138m).

Mr Alan Smith, managing director, said the dividend increase was "entirely consistent" with assumptions made when the regulatory regime for the privatised water industry was set up in 1989.

However, Mr Smith said that at privatisation it had been assumed Anglian's earnings per share for the year would be flat. In fact, they came out slightly ahead at 45.9p (42.1p), the contributing factors being lower-than-expected construction costs and benefits of treasury management.

Unlike most other water companies, Anglian was privatised with net debt. Last year, it moved much of its borrowings on to a long-term basis, issuing two bonds in the sterling market.



Anglian's area has been one of those most hard hit by the drought and since winter 1989 it has brought forward £26m worth of schemes to boost supplies. But Mr Bernard Henderson, chairman, warned yesterday that if the weather became more extreme a hosepipe ban, already effective in some regions, might have to be extended.

Turnover was up at £460.6m (£401.3m), including a 1 per cent volume increase in the core business. Investment expenditure was on target at £229.3m (£192m). Net interest payable rose to £18.1m (£16.1m).

● **COMMENT**

With Mr Byatt, the water industry's regulator, firing off letters expressing worries about what big profit increases and ambitious diversifications mean for customers, investors have been smiling on conservative companies like Anglian of late. It has never been involved in the dividend race and its one acquisition, a sewage sludge digestion company, cost it £7.8m last year. Some people are concerned it is keeping too loose a rein on operating costs, although there are plenty of excuses for last year's increase, such as that it cut back a good deal pre-privatisation, and population distribution in the region. Pre-tax profits of £175m are expected for this year. With a dividend of about 19.5p the prospective yield is over 7 per cent. The shares look a sound hold despite the recent run.

Slump in UK housing halves Meyer

By Jane Fuller

THE SLUMP in UK housing, which has seen the number of housing starts fall by more than 20 per cent in each of the past two years, hit profits at Meyer International, which includes the Jewson builders' merchant chain.

Taxable profit fell by 49 per cent from £70.8m to £36.1m on turnover that slipped to £1.13bn (£1.14bn) in the 12 months to March 31.

The dividend was nevertheless maintained at 16.5p, after a 12.3p final. It was covered 1.7 times by earnings per share of 27.9p (54.8p).

Sir Oscar DeVille, who will retire as chairman in September, said the business had been affected by a drop in repair work as well as by reduced building.

The size of the Jewson chain had been virtually maintained at 207 (209) outlets.

Jewson's operating profit fell to £26.9m (£36m) on sales of £419.7m (£464.9m). Sir Oscar said he expected repairs and home improvements to pick up quickly alongside house moves.

In forest products, the wholesale side saw profit fall to £10.9m (£13.7m) and the merchants contributed £6.5m (£7.9m). Between them, sales were £293.2m (£301m).

Pont Meyer, in the Netherlands, which like UBM was acquired in 1988, fell sharply to £7.6m (£12.7m) on sales of £243.2m (£231m). The previous year had been a particularly good one and timber stock losses had accounted for £1.5m of the decline, he said.

Another inheritance from Norcros, the Cadel plumbers' merchants, had plummeted to a loss of £5.3m from a £1.1m profit. Turnover fell to £62.8m (£87.9m) as the old business of serving contractors was phased out.

● **COMMENT**

As Meyer reached a profit peak of £87.2m in 1988-89, it embarked on expansion in UK merchanting and abroad, starting with the Netherlands. Neither has provided much of a cushion against the downturn in UK housing, although some disposals and prompt pruning of overheads have helped to limit the damage. The balance sheet has stayed strong enough to justify a maintained dividend. Now it's a case of guessing when the upturn will come. Cold comfort was offered by Sir Eric Pountain at Tarmac's annual meeting yesterday. He warned that the trading climate had got worse. It looks as though the first results presented by Sir Oscar's successor, Mr Richard Jewson, will be a grim set of interims. However, the elimination of timber stock losses, a reduced drain at Cadel and the beginning of a recovery at Jewson should provide modest profit growth to £39m, giving a prospective p/e of 14.5 on yesterday's close of 421p. As the multiple falls to about 10 on a 1992-93 forecast, the price looks fair.

Aerospace difficulties depress JFB profit

By Michiyo Nakamoto

DIFFICULTIES in world aerospace markets depressed first-half profits at Johnson & Firth Brown, the Sheffield-based metals and engineering group, which reported pre-tax profit to March 31 down from £5.7m to £5.08m.

The decline was on turnover of £60.86m (£60.15m), including a first contribution from Monroe Forgings, acquired in February to provide JFB with an entry into the valuable US aerospace market.

About half the fall in pre-tax profits was due to the sale of associate businesses announced in December, the group said.

Nevertheless its aerospace business, which comprises about 23 per cent of overall sales, suffered a considerable downturn in the first half, with sales about 25 per cent lower, said Mr George Hardie, joint managing director.

The group warned that with aerospace markets faced with continuing difficulty, it expected the second half to be "at least as difficult as the first half."

It was maintaining a strong capital expenditure programme with spending of £5m in the first half expected to rise to £9m for the full year.

The interim is held at 1p.

No pay rise for Bank of Scotland top executives

By James Buxton, Scottish Correspondent

THE TOP executives of Bank of Scotland are taking no increase in salary this year. Mr Bruce Pattullo, who took over yesterday as governor of the bank, said the decision had been taken in order not to prejudice negotiations now being finalised on staff pay.

The issue emerged at the annual meeting, when a shareholder pointed to the 19.5 per cent rise in director's fees noted in the annual report against the 31 per cent fall in pre-tax profits, its first since 1985. Sir Thomas Risk, outgoing governor, said the increase in the fees of directors, all of whom are non-executive, referred to last year and no rise was proposed for this year.

Mr Pattullo said the management board of full-time executives was not taking an increase in order to encourage a moderate settlement of the staff pay claim. "The financial services industry has been somewhat irresponsible in the last few years," he said.

At the other leading UK banks only the directors of Midland are taking a drop in pay this year.

Sir Thomas said the recent success of the bank's £194m rights issue, which was 93 per cent subscribed, showed the confidence that existed.

Unlike Sir Thomas, Mr Pattullo is to be executive governor, the first in the bank's history. Up to now he has been deputy governor and group chief executive. Professor Jack Shaw, former director of Scottish Financial Enterprise, and Mr Thomas Hutchison, an executive director of Imperial Chemical Industries, were elected deputy governors.

All-round rise at Marston

By Michiyo Nakamoto

A FIRM RISE in beer sales and a strong increase in the contribution from food sales at its catering houses supported a 6 per cent rise in pre-tax profits at Marston, Thompson & Evershed, the brewer, for the year to March 31.

Marston saw taxable profit rise to £18.34m from a previous £17.35m on turnover up by 16.6 per cent from £92.13m to £107.38m.

However, market conditions which deteriorated towards the latter part of the last financial year have not improved.

Beer sales over the year grew by 5 per cent as a result of the group's emphasis on sales of its Pedigree and low carbohydrate Low "C" sales through other brewers and wholesale channels.

The group's tied trade business, with 741 in its tenanted estate at the year end, was adversely affected by the recession and beer volume in this sector fell. Tavern Tables, the catering houses, increased its profits contribution by 85 per cent due to a rise in food sales of over 80 per cent.

Earnings per share rose nearly 10 per cent to 14.44p from a previous 13.16p.

A recommended final dividend of 3.2p (2.91p) makes a total of 4.46p (4.02p).

National Grid beats forecast with £111.6m

By Clare Pearson

NATIONAL GRID, the transmission company which is owned jointly by the English and Welsh regional electricity companies, yesterday exceeded its privatisation forecast with the announcement of current cost post-tax profits of £111.6m for the year to end-March.

The result compared with £104.5m, the forecast made in the regional companies' flotation prospectus last November.

But the company is paying out only the forecast amount of £104.5m in dividends to the companies which each own between 5.4 and 12.5 per cent of its shares.

Mr John Uttley, finance director, said this was seen as a "good, prudent starting point" for future dividends.

He added that, with historic cost post-tax profits standing at £259.5m, against a forecast £241.4m, dividend cover was 2.48. "We have always seen 2.5 as a sensible cover ratio," he said.

At the pre-tax line, current cost profits were £237.8m, against a forecast £224.3m. In historic cost terms they were £385.7m, against £361.2m.

Capital expenditure was £64m higher than last year but £19m lower than forecast, due to lower spending on the non-transmission business.

Net interest charges were £79m.

Turnover was £1.14bn.

The company derives more than 80 per cent of income from charges to grid users.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Airsprung § ......fin	3.7	July 31	3.18	6.33	5.5
Amersham Intl ......fin	8.1	Aug 5	8.1	11.8	11.8
Anglian Water ......fin	11.7	Oct 1	10.21	17.5	15.3‡
BSS Group ......fin	11.5	July 25	11.5	17.25	17.25
Buradene Invests......int	2	Sept 2	3	-	8.5
Caskel ......fin	0.2	Oct 1	0.1	0.2	0.1
Drummond ......fin	0.5	Oct 1	1.35	1	2.35
Fyffes ......int	0.3226♣	July 31	0.2933	-	1.0353
Johnson & Firth ......int	1	July 26	1	-	3
London & Clydes ......int	1.8	July 23	1.8	-	7
Marston Thompson..fin	3.2	Aug 17	2.91	4.46	4.02
Meyer Intl ......fin	12.3	Sept 2	12.3	16.5	16.5
Midlands Radio ......int	1.5	Aug 7	2.5	-	4.5
Northern Foods ......fin	8.5	Aug 23	7.25	14.5	12.5
Osborne & Little......fin	2.35	July 24	3.8	4.35	5.8
Oxford Instrums ......fin	2.8	Oct 1	2.7	4.15	3.9
Saleland ......fin	0.3	Aug 30	2.24	1	3.84
Somic ......fin	1	-	1.5	1	2.5
United Drug § ......int	1.85♣	June 28	1.75	-	5.75
Vosper ......fin	7.875	Aug 20	6.75	11.375	9.875

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. ‡Pro-forma payment. ♣Irish currency.

THIS NOTICE DOES NOT CONSTITUTE AN OFFER FOR SALE AND THE LOANS LISTED BELOW ARE NOT AVAILABLE FOR PURCHASE DIRECT FROM THE BANK OF ENGLAND. OFFICIAL DEALINGS IN THE LOANS ON THE INTERNATIONAL STOCK EXCHANGE ARE EXPECTED TO COMMENCE ON TUESDAY, 11TH JUNE 1991.

ISSUES OF GOVERNMENT LOANS

The Bank of England announces that Her Majesty's Treasury has created on 10th June 1991, and has issued to the Bank, additional amounts as indicated of each of the Loans listed below:

£300 million 10 per cent TREASURY LOAN, 1994
£100 million 8½ per cent TREASURY LOAN, 2007

The price paid by the Bank on issue was in each case the middle market price of the relevant Loan at 3.30 p.m. on 10th June 1991 as certified by the Government Broker.

In each case, the amount issued on 10th June 1991 represents a further tranche of the relevant Loan, ranking in all respects *pari passu* with that Loan and subject to the terms and conditions applicable to that Loan, and subject also to the provision contained in the final paragraph of this notice; the current provisions for Capital Gains Tax are described below.

Application has been made to the Council of The International Stock Exchange for each further tranche of the Loans to be admitted to the Official List.

Copies of the prospectuses for 10 per cent Treasury Loan, 1994 dated 2nd January 1987 and 8½ per cent Treasury Loan, 2007 dated 11th July 1986 may be obtained from the Registrar's Department, Bank of England (New Issues), Southgate House, Southgate Street, Gloucester, GL1 1UW.

The Loans are repayable at par, and interest is payable half-yearly, on the dates shown below:

Loan	*Redemption date*	*Interest payment dates*
10 per cent Treasury Loan, 1994	9th June 1994	9th June 9th December
8½ per cent Treasury Loan, 2007	16th July 2007	16th January 16th July

The further tranches of 10 per cent Treasury Loan, 1994 and 8½ per cent Treasury Loan, 2007 will rank for a full six months' interest on the next interest payment date applicable to the relevant Loan.

Each of the Loans referred to in this notice is specified under paragraph 1 of Schedule 2 to the Capital Gains Tax Act 1979 as a gilt-edged security (under current legislation exempt from tax on capital gains, irrespective of the period for which the Loan is held).

Government Statement
Attention is drawn to the statement issued by Her Majesty's Treasury on 29th May 1985 which explained that, in the interest of the orderly conduct of fiscal policy, neither Her Majesty's Government nor the Bank of England or their respective servants or agents undertake to disclose tax changes decided on but not yet announced, even where they may specifically affect the terms on which, or the conditions under which, these further tranches of the Loans are issued or sold by or on behalf of the Government or the Bank; that no responsibility can therefore be accepted for any omission to make such disclosure; and that such omission shall neither render any transaction liable to be set aside nor give rise to any claim for compensation.

BANK OF ENGLAND
LONDON
10th June 1991

UK COMPANY NEWS

Refocused Amersham declines 31% to £16.5m

By Jane Fuller

AMERSHAM International, which makes radioactive packages for medical, industrial and research uses, saw pre-tax profit fall by 31 per cent in a year of change for the group.

It moved out of clinical diagnostics, including the expensive-to-develop Amerlite product, and made an important radiopharmaceuticals acquisition in the US.

Pre-tax profit fell from £23.9m to £16.5m in the year ended March 31 1991, but the previous year was flattered by a £5.7m exceptional surplus after the sale and leaseback of the head office.

Turnover went up from £207.7m to £242.4m, affected by an overlap between the purchase of Medi-Physics in the US and the sale of the clinical diagnostics business.

Mr Kirk Stephenson, finance director, said that without those two distortions, sales grew by 9.5 per cent at constant exchange rates.

The biggest profit contributor was life science products, which supplies academic institutions with isotopes. Turnover inched ahead to £80.7m (£78.9m) but operating profit fell to £16.8m (£18.9m).

Mr Bill Castell, chief executive, said the economic slowdown in various countries had led to cuts in university spending. Competition intensified and prices were cut to maintain market position.

In pharmaceuticals products, for diagnostics and cancer therapy, turnover shot up to £57.6m (£31.8m) after a £22m injection from Medi-Physics. But it also accounted for most of the division's £2.4m operating loss (£2.5m profit). Sales of Ceretec, the brain imaging agent, increased from £6m to £10m.

Bill Castell: prices cut as competition intensified

Industrial products was hit by the UK government's unexpected closure of reactors at Harwell. New isotope sources had to be found and price increases totalled more than £2m. Operating profit fell to £5.1m (£8.2m).

Clinical reagents, which covers the business sold to Kodak, greatly increased its profit contribution to £9.4m (£1.9m) after the tap was turned off on Amerlite's development. This year royalty payments of at least £5m would help to plug the gap, Mr Castell said.

Net debt rose to £41.2m (£26m), giving gearing of 34 per cent (24 per cent). The bulk of the money from the phased £84m sale to Kodak is due to come in next year. An extraordinary profit of £16m was included in these figures.

Earnings per share fell to 18.2p (19p, or 33.1p including exceptional profit). A maintained final dividend of 8.1p makes an unchanged total of 11.8p.

● COMMENT

Amersham's refocusing on its radioactive core has been welcomed and the continued revenue stream from royalties will reduce the ground to be made up. Research and development, which used to cost £25m with Amerlite accounting for half, fell to £17m last year and will be lower again this time without impeding progress on some promising products. Yet the new management still has several niggling problems to solve. For instance, buying the Medi-Physics business was great strategy, but it needs turning round. The effects of disrupted isotope supply may also take some careful ironing out. With a more favourable currency wind and some growth in the core divisions, pre-tax profit is forecast to be £19m this year, giving a prospective p/e of about 17. This looks ahead to the Kodak payments harvest as well as business recovery in 1992-93, making it worth holding.

Oxford Instruments falls 18% to £12.8m despite MRI gains

By Michiyo Nakamoto

OXFORD INSTRUMENTS, the advanced instrumentation company, saw pre-tax profits before exceptionals fall 18 per cent from £15.53m to £12.78m due to recession in the West, disruption to the economies of the Soviet Union and Eastern Europe, and a strong pound.

The fall in profits for the year to March 31 came despite the strong turnround in its magnetic resonance imaging (MRI) business. Since forming a joint venture with Siemens, this has contributed £3.5m to group pre-tax profits as against substantial losses before.

The reduced profit figure came on higher turnover of £108.46m (£103.45m). It does not include an exceptional of £717,000 arising from the relocation of certain businesses. This compares with an exceptional profit of £5.81m in the previous year from asset disposals at Oxford Magnet Technology.

Including exceptionals, pre-tax profits were down 39 per cent to £12.07m (£19.85m).

The effects of recession in the West were felt in the disappointing performance from the analytical systems division despite a near 10 per cent increase in demand for its products.

The semiconductor processing division, which manufactures the synchrotron, a semiconductor manufacturing equipment based on x-ray microlithography, suffered "a six-figure loss."

Earnings per share before exceptionals were down to 17.8p (21.0p). Including exceptionals, earnings were down to 16.8p (26.8p).

However, the final dividend is raised to 2.8p per share compared for an increased total of 4.15p (3.9p).

The shares closed down 20p at 233p.

● COMMENT

The near 8 per cent fall on the day in Oxford's shares was a clear sign of the disappointment in the City at these results from a group that has attracted some excitement after the impressive turnround at its MRI magnet business. Hopes had also been rising that the group would go on to score another hit with the synchrotron, which enables semiconductor manufacturers to pack more circuits on to microchips than is possible with the currently dominant system based on optical microlithography. However, while its first synchrotron has now been delivered to IBM, the group itself is cautious about the immediate prospects for the synchrotron. The considerable investment semiconductor manufacturers have already made in optical printing methods means the switch to an x-ray based system is not going to happen overnight. Having said that, Oxford appears to have made some of the right moves as it waits for things to turn more in its favour. It has taken steps to reduce costs and improve management efficiency and increase R&D expenditure from £6.8m to £8.0m, not including customer-funded R&D. It has a clearly stated goal of building up its share of the important semiconductor market in Japan, which is currently at less than 10 per cent. While forecast pre-tax profits of £13m this year for a p/e ratio of 12.9 leaves the shares at 233p looking fair for now, the longer-term picture looks promising.

BOARD MEETINGS

TODAY

Interims- Berisford Intl., Caldwell Invs., Equity & Law Intl. Funds, First Leisure Corp., Intercare.

Finals- AAH, Cater Allen, Daily Mail & Gen. Trust, Deelkraal Gold, Doornfontein Gold, Driefontein, Dwyer, Hambros, Harrison Inds., Kembrey, Kloof Gold, Libanon Gold, M & G Second Dual Trust, Mansfield Brewery, Porter Chadburn, Racal Elects., Regalian Props., St. James Place Capital, Venterpost Gold, Waddington (John), Wardell Roberts.

FUTURE DATES

Interims-

Anglia Secure Homes	June 24
Greencore	June 13
Lee (Arthur)	June 27
Lovell (Y.J.)	June 13
TSB Bank (Channel Isls.)	June 20
Trust	June 13
Utd. Scientific	June 14

Finals-

Allen	June 24
Bertam	June 17
Birse	July 15
Brown Shipley	July 13
Davenport Knitwear	June 14
Graham Wood	June 27
Mountview Estates	June 19
Penny & Giles Intl.	June 20
Premier Cons Oilfields	June 20
Stoddard Sekers Intl.	June 18

NEWS DIGEST

Tie Rack calls for £3.1m

TIE RACK, the specialist retailer, is to raise £3.1m net by a rights issue of 17.12m shares on a 1-for-2 basis at 22p each, compared with yesterday's closing price of 26p, down 2p. The proceeds will be used to strengthen its balance sheet.

The company also announced the splitting of the chairman and chief executive posts. Mr Roy Bishko, becomes executive chairman and Mr Nigel McGinley chief executive. Additional non-executive directors are to be appointed.

Some shareholders have agreed to take up 28.3 per cent of the issue with a further 47.4 per cent to which they were entitled being placed. The remainder has been underwritten by Samuel Montagu.

Restructured Casket achieves £212,000

The major corporate restructuring carried out by Casket is showing through in results, and for the year ended March 31 1991 the group made a pre-tax profit of £212,000, compared with a loss of £3.2m in the previous nine months.

Also, net bank debt levels fell from £17.38m to £7.99m, and will drop further in the current year as the full impact of working capital controls and the elimination of loss making businesses were felt, said Mr Joe Smith, chief executive.

The continuing businesses – making and importing clothing and leisure goods such as bicycles and toys – made trading profits of £2.93m (£1m for the period). Discontinued activities – household textiles and fabric manufacture – cut their losses to £799,000 (£1.94m).

Reorganisation involved a £5.3m rights issue, the sale or closure of a number of businesses and the disposal of surplus properties. Extraordinary charges were £5.91m (£2m).

Earnings per share came to 0.4p (losses 8.6p) and the dividend is doubled to 0.2p.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Pool purchase price £/MWh	Pool selling price £/MWh
[illegible]	[illegible]	[illegible]

Burndene declines 33% to £1.47m

Taxable profits at Burndene Investments, which has interests in caravans, hosiery and property, fell by 33 per cent, from £2.19m to £1.47m, for the six months to March 31.

Earnings per share were reduced to 9.84p (14.27p) and the interim dividend is cut from 3p to 2p. Turnover amounted to £23.2m (£24.4m).

Safeland reduced to £335,000

Safeland, the property group, saw its taxable profits drop from £3.04m to £335,000 in the year ended March 31.

Earnings fell from 11.4p to 1.1p and a cut in the final dividend to 0.3p (2.24p) is recommended for a 1p (3.84p) total.

Turnover declined to £11.88m (£28.89m) with operating profits at £1.05m (£3.79m).

Lower revenue hits Midlands Radio

Lower advertising revenue, particularly national sales, left Midlands Radio, the independent radio operator, with pre-tax profits of £307,000 in the six months to March 31, a fall of 69 per cent on £981,000.

Turnover was £4.62m (£5.23m). After tax of £104,000 (£343,000) earnings per share were 1.55p (4.86p). The interim dividend is cut to 1.5p (2.5p).

United Drug makes 6% improvement

United Drug, the Irish Republic-based pharmaceuticals, consumer products and medical equipment group, achieved a 6 per cent increase in pre-tax profit to I£1.22m (£1.11m) for the half year ended March 31. The previous figure was I£1.15m.

Turnover of this USM-quoted company was ahead at I£30.15m (I£28.53m) and earnings per share came out at 7.26p (6.85p) basic and 6.57p (6.24p) diluted.

An interim dividend of 1.85p (1.75p) has been declared.

Osborne & Little slides to £892,000

Osborne & Little, the wall coverings and home furnishings group, is cutting its final dividend for the year ended March 31 1991 as pre-tax profits were almost halved.

Sir Peter Osborne, chairman, said the upturn expected in the second half did not materialise, and the group finished the year with a profit of £892,000, against £1.73m. That included exceptional costs of £80,000 as compensation to a director for loss of office.

Earnings fell to 7.9p (15.18p) and the final dividend is 2.35p for a total of 4.35p (5.8p).

Turnover rose to £18.57m (£16.58m). Gross profit margin fell to 54 per cent (55 per cent) because of the higher element of overseas sales and a change in the product mix.

Manufacturing side boosts Hawtin

Substantial growth in the manufacturing division helped Hawtin, the leisure group, to lift interim profit by 28 per cent, from £550,000 to £703,000.

In the six months to March 31 the division doubled its profit.

Turnover improved 9 per cent to £12.48m (£11.47m). Earnings per share worked through at 0.69p (0.55p).

London & Clydeside lifted to £855,000

London & Clydeside Holdings, the only quoted housebuilder operating exclusively in Scotland, achieved an 11 per cent increase in pre-tax profit for the six months ended March 31 – up from £772,000 to £855,000.

Turnover was 3 per cent ahead at £8.65m (£8.4m), and earnings per share increased from 5.4p to 6.1p.

The interim dividend is maintained at 1.8p.

APG seeking £7.4m from shareholders

In order to reduce gearing and to fund investment in profitable environmental activities, Allied Partnership Group is raising £7.44m net through a conditional placing and open offer.

Up to 45.9m ordinary shares are being offered at 17p each on the basis of 3-for-5.

Gulf war boosts prospects for Vosper Thorneycroft

By Andrew Bolger

VOSPER THORNEYCROFT, the Southampton-based warship designer and builder, reported a 19 per cent increase in pre-tax profits to £14.28m in the year to March 31.

However, the group warned that uncertainty over orders for minehunters for the Royal Navy and Saudi Arabia might require it to make modest reductions in its 2,000-strong workforce over the next few months unless new business was obtained.

During the past year Vosper shed 200 jobs, at an extraordinary cost of £1.48m, but said any further job cuts would be on a much smaller scale.

Turnover rose by 15 per cent to £140m and earnings rose by 23 per cent to 31.2p. A final dividend of 7.875p makes a total for the year of 11.875, an increase of 15 per cent.

Mr Peter Usher, chairman, said ship sales prospects had been enhanced by the performance of Vosper-built Hunt class minehunters in the Gulf war, which dealt with hundreds of mines.

The company was now building the Sandown class, which was entering Royal Navy service and promised to be even more effective than the Hunt class. Sandown class ships under construction for the Royal Saudi Naval Forces were progressing well, and productivity continued to improve.

Five Sandown minehunters have been ordered by the Ministry of Defence, two of which are already in service, and the group has instructions to proceed with six for the Saudis.

The first Saudi ship is virtually completed, the second has been launched and the third will be delivered in 1994. Discussions on funding for the second batch of three for Saudi Arabia continue.

Mr Usher said that while no decisions on naval procurement had yet been announced, it now seemed likely that an expected orders for up to seven Sandown minehunters would be delayed, and perhaps reduced.

He was confident that changes in UK defence policy would bear less heavily on Vosper than most defence suppliers, not least because more than 62 per cent of its output was exported.

Vosper had year-end cash balances of £34m. Mr Martin Jay, managing director, said he was keen to make acquisitions in non-defence markets, which currently account for less than 10 per cent of group output, and prices of businesses were becoming more reasonable.

● COMMENT

Vosper had a good Gulf war, and the experience of Kuwait has certainly done no harm to the market for minehunters. Along with every other defence supplier, the company's outlook is clouded by the uncertainty currently gripping the Ministry of Defence as it ponders the Options for Change review. But Vosper's strong exports and £400m order book means it is much better placed than many other defence contractors, a sector which the market has been shunning. Forecast pre-tax profits of £16m and earnings of 34.5p put the shares, up 9p yesterday to 248p, on a prospective multiple of just over 7 – a 40 per cent discount to the market. That seems very reasonable, given the company's full order book, canny management and strong cash position.

Bad debts hit Lombard N Central

By David Barchard

BAD DEBTS pushed Lombard North Central, the finance house subsidiary of National Westminster Bank, into a pre-tax loss of £1.4m in the half year ending March 31 1991.

However a £9m tax credit meant that the group made a post-tax profit of £7.6m, down from £15.5m a year ago.

Lombard North Central is the first of the large finance houses to announce its results. Its latest figures suggest that 1991 is turning out to be an even more disastrous year for asset-based lenders than 1990.

Though profits before bad debt charges rose by 21 per cent to £80.2m (£66.1m), the charges rose from £42.2m at the same point in 1990 to £81.6m.

Bad debts hit almost every form of lending in which Lombard North Central is engaged, according to the company, and were not concentrated in a particular sector.

"The magnitude and extent of the adverse effects of the deteriorating economic environment have been far worse than were ever contemplated." said Sir Hugh Cubitt, chairman.

Volumes of new business were generally lower than in 1990, but the group now has a balance sheet of around £8bn.

Earnings per share fell from 9.8p to 6p.

49% advance for Airsprung Furniture

Airsprung Furniture Group, which trades on the USM, announced a 49 per cent increase in taxable profits for the year to March 31.

Mr John Yates, the chairman, said the result, up from £2.35m to £3.5m, was achieved at a time when interest rates were high and the furniture market as a whole had fallen by some 6 per cent in real terms.

Earnings per share improved from 13.1p to 22.3p and the dividend for the year is lifted to 6.33p (5.5p) with a final of 3.7p (3.18p) proposed.

Turnover rose by 27 per cent from £43.94m to £55.97m and operating profits came through at £4.43m (£2.74m). Interest charges advanced to £907,000 (£374,000) but at the year end gearing had fallen to 34 per cent (44 per cent).

The company has applied for a full listing.

Drummond falls £0.4m in the red after exceptionals

DRUMMOND GROUP fell into taxable losses of £379,000 in the year to March 31 after an exceptional charge of £882,000. The result compared with profits of £1.01m.

Mr Stefan Simmonds, chairman, said the charge resulted from a number of problems which were not expected to recur.

The main ones were a fall in the value of raw material stocks and contracts following the abandoning of Australian wool price support and the liquidation of large stocks of fabric as a result of the Middle East crisis and fall in wool prices.

He added that the results although disappointing had been indicated at the interim stage. Directors are proposing to cut the final dividend to 0.5p (1.35p) for a total payment of 1p (2.35p).

The shares rose 4p on the day to close at 32p.

Turnover increased to £35.34m (£28.83m) helped by acquisitions, the benefits of which are expected to begin in the present year.

A tax charge of £419,000 (£354,000) primarily represented unrecovered Advance Corporation Tax, which should be recoverable against tax in the future, said Mr Simmonds.

Losses per share were 11.28p, compared with earnings of 2.89p.

Somic tumbles

Reduced pre-tax profits of £50,113, against £206,242, were announced by Somic, the Preston-based yarn and fabric maker, in the year to March 31.

Earnings per share fell from 6.13p to 1.59p and the dividend for the year is cut to 1p (2.5p). There was no interim (1p).

Institutional battle ahead for Tate & Lyle

Mark Westfield assesses the latest stage in the A$325m bid for Bundaberg Sugar

ALTHOUGH Tate & Lyle, the sweetener group, has cleared a major hurdle in its A$325m takeover bid for Bundaberg Sugar with the offer's clearance by the Australian government, it still faces considerable opposition from institutional shareholders.

Shares in Bundaberg, the Queensland sugar miller and rum producer, jumped 40 cents to A$4, which is 10 cents below the offer price, on thin volume following the news that Mr John Kerin, the newly-appointed Australian Treasurer, had not stopped the takeover.

Tate has so far secured just 2.5 per cent of its target's shares to add to the 2.8 per cent it bought before launching its bid 12 weeks ago.

Shareholders have been reluctant to grant the hostile bidder a free option over their stock by accepting the bid as long as the 90 per cent acceptance condition remains in place. Highly conditional bids in Australia have a history of falling well short of target.

Tate & Lyle and Mr Bill Beerworth, its Australian adviser, will now try to persuade the institutions which hold a total of 51 per cent of Bundaberg, to accept. They will emphasise the likelihood of the stock price falling back to its pre-bid level of below $3 if the offer fails.

Most of the institutions are expected to say no on the grounds that they believe the offer price is too low.

Tate & Lyle said yesterday that more shareholders than was generally realised considered the $4.10 offer to be reasonable.

Shareholders, particularly the influential institutions, will play a cat-and-mouse game over the coming fortnight with the suitor. Tate must decide by June 21 whether to renew its bid, which expires on June 28.

Political hurdle overcome: John Kerin, left, the new Australian Treasurer and Neil Shaw, chairman and chief executive of Tate & Lyle

Tate & Lyle has refused to sweeten its bid but then it also had denied it would increase its original bid of $3.70. It revised its offer to $4.10 on April 29 when it lodged its formal takeover documents with the Bundaberg board.

The institutions believe Tate & Lyle may be persuaded to improve its offer still further, demonstrating that the battle for control now hinges on price. Most institutions have done their own numbers and believe the stock is worth more than A$4.10.

If sufficient numbers of shareholders hold on to their shares, then Tate will not be able to attain its goal of clear control. In that case Tatewould be unlikely to demonstrate that its bid was serious by dropping the minimum 90 per cent acceptance condition.

Tate is not taking any risks.It is engaging a finely-pitched strategy to avoid being locked in to a minority holding of between 25 per cent and 30 per cent with little control over its investment, which it considers to be the worst possible result.

By doing this, however, it is exposing itself to criticism that it is not serious in its ambitions on Bundaberg.

Under Australian takeover rules, Tate & Lyle would be able to go into the market to buy as much stock as it could in tandem with its takeover offer if it were to declare its bid unconditional.

An aggressor can only buy up to 20 per cent of its target in the market if it keeps its bid conditional.

The superannuation funds holding the key to Bundaberg are aware that Tate bought only a token share parcel before launching its offer on March 19. In contrast Ranks Hovis McDougall, the food group, demonstrated its serious intent when it raided the share market in April 1989, to go to the limit under the foreign investment rules of 14.9 per cent before bidding for Goodman Fielder Wattie, a rival food group.

Ranks withdrew its bid after Goodman dumped its 29 per cent cross shareholding into the laps of the formidable Sunningdale trio, Sir James Goldsmith, Mr Jacob Rothschild and Mr Kerry Packer.

While Tate is stirring up plenty of dust with its bidding tactics, the institutional shareholders are making it clear they will not deal at A$4.10. They are sending signals that Tate will have to offer more if it wishes to get at least 50 per cent of the stock.

The UK group has denied it will do this, but it has the option of dipping into Bundaberg's $9m in franking credits, equivalent to 11 cents a share, to offer a one-off tax-free dividend in the event of its winning control. This would effectively lift the offer price to A$4.21, without Tate having to break its undertaking not to increase the bid price.

One fund manager said yesterday that an additional 11-cent dividend might do it.

Tate cleared the political hurdle after a wait of six weeks following advice from the Foreign Investment Review Board (FIRB) going to Mr Paul Keating, theformer Treasurer, for consideration. The Treasurer has the discretion to accept or reject a recommendation from the FIRB.

The delay by Mr Keating came during the lengthy lead-up and then unsuccessful challenge he mounted last Monday for the leadership of the Labour Party.

It is understood the FIRB recommended that no objection be raised against the offer. The test applied by the FIRB is that any takeover proposal should not be against the national interest.

When Mr Kerin, the former Minister for Primary Industry, assumed the post last Monday, however, there were strong suggestions in Canberra that he may block the bid.

Queensland's 5,000 cane growers have vigorously opposed the takeover bid, claiming that a multinational sweetener group would not be committed to their industry.

Mr Kerin's accession to the post was followed immediately by wild swings in the bond, currency and share markets in Australia because of uncertainty over the direction of economic policy in the wake of the change of Treasurer.

Whether Mr Kerin had contemplated a change of direction or not, his decision to allow the Tate & Lyle bid to proceed was consistent with the laisser faire approach of his predecessor.

COMMODITIES AND AGRICULTURE

Soviet aluminium flood forecast to reach 1m tonnes

By Kenneth Gooding, Mining Correspondent, in Brussels

THE FLOOD of aluminium exports from the Soviet Union to the West would reach about 1m tonnes this year, a huge increase fom the 300,000 tonnes exported in 1990, said Mr Dag Flaa, vice chairman of the European Aluminium Association, yesterday.

The torrent of metal was already having an impact on the London Metal Exchange prices because the Soviet Union had no direct customers and was selling to brokers who used the exchange.

Mr Flaa, chief executive of Hydro Aluminium of Norway, reached his conclusions during a recent fact-finding visit when he met senior members of the Soviet industry and ministers. He said the Soviet central selling organisation had allocated 800,000 tonnes of aluminium for export and each smelter had been allowed to keep 10 per cent of production for sale on its own account. Most of this metal was also likely to find its way to the West.

If Mr Flaa's prediction was fulfilled it would mean that nearly one third of the Soviet Union's aluminium output would arrive in the west this year. The Soviet Union is the world's largest producer of the metal with an annual output of between 3m and 3.5m tonnes, Mr Flaa pointed out.

According to the European Aluminium Association, western world production of aluminium last year was 14.2m tonnes, consumption was 14.6m tonnes. The gap was filled by imports form the former communist countries, mainly the Soviet Union.

Mr Jochen Schirner, chairman of the EAA, suggested that the Soviet flood was not as frightening as it might appear at first sight. Part of it would compensate for the ending of production and exports from other East European smelters. For example all of the former East Germany's aluminium production – about 180,000 tonnes a year – had been halted permanently because the country's smelters had been such big polluters.

Mr Schirner said that short term problems, such as the extra imports of Soviet metal, meant that the European aluminium industry was not quite as buoyant as at this time last year. But its position was "still satisfactory".

He suggested that only a small minority of European smelters was currently operating at a loss in spite of the present relatively low prices – down from US$1,800 a tonne at this time last year to $1,200 in recent weeks.

Mr Flaa said that the reaction of LME prices yesterday to Reynolds Metals' decision to close some production capacity in the US – the cash price rose $86 to $1,307 a tonne – implied that prices had been at the bottom. Any further fall would prompt more production cuts.

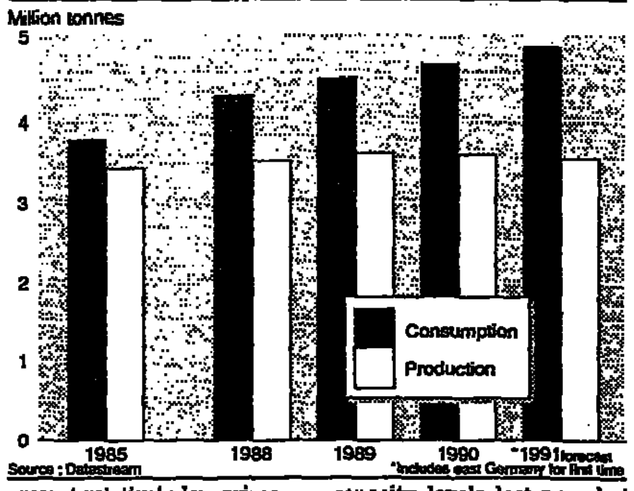
In his "State of the European Aluminium Industry" presentation Mr Hansgeorg Seebauer, secretary general of the EAA, predicted growth in aluminium consumption in western Europe would slow this year after 2.5 per cent rise to 4.6m tonnes in 1990. A 1 per cent increase was forecast for 1991. When the former East Germany was included, however, the rise was 4.5 per cent.

Western European smelters continued to work at close to capacity levels last year but primary aluminium output in the region fell by 0.5 per cent to 3.6m tonnes. That meant imports costing $1.8bn had been needed, he pointed out.

Low prices might cause some further reduction in western European output this year, perhaps by another 0.5 per cent. Alumix, the state-owned Italian producer, recently indicated that it might shut a smelter and cut output in other ways and Alusuise was also making cuts at its German smelters.

Looking further ahead, the European aluminium industry is more competent than ever. Mr Seebauer said it now looked for marked for aluminium go grow at 2.5 to 3 per cent a year because car makers intended to use much more of the metal. Last year the industry was forecasting a growth rate of 2 to 2.5 per cent.

Primary aluminium in Europe



Source: Datastream *Includes east Germany for first time

Pace of Ghanaian cocoa reform slows

The World Bank wants more privatisation, writes **William Keeling**

AT THE main road junctions in Accra, hawkers haggle with occupants of cars over an astonishing array of goods. Eager hands thrust through open windows items such as cartons of yoghurt, cotton handkerchiefs, dog-chains, tapes of high-life music and, of course, chocolate. "Golden Tree. You want milk chocolate? Yes?" As the cars gather pace, so do negotiations over price with deals normally concluded at a 20 mile per hour sprint.

Munching through a bar of Golden Tree does more than support the meagre income of the hawker. The cocoa from which the chocolate is made forms the backbone of the Ghanaian economy, accounting for 42 per cent of last year's foreign exchange earnings. The economy, in its ninth year of a World Bank-assisted structural adjustment programme, has witnessed a modest recovery aided by improved output of the cocoa sector.

While production rose from a low of 159,000 tonnes in 1983-84 season to 300,000 tonnes 1988-89, it has fallen since and the 1990-91 crop is unlikely to exceed 280,000 tonnes. More importantly, the pace of reform within the sector, which is still controlled through the state-owned Ghana Cocoa Board (Cocobod), has slowed. While certain Cocobod functions such as the supply of fertiliser and insecticide have been privatised, it remains a costly and bloated institution.

The World Bank has been pushing to extend privatisation to include purchasing and marketing of cocoa but without success. Industry officials say that the government has been deterred by the example of Nigeria, where the dissolution of the state purchasing board has led to cocoa being used as a speculative instrument against currency devaluation, resulting in wild fluctuations in the price paid to farmers. As a result, Western diplomats report that the World Bank has reduced its pressure for reform and is asking for a longer-term review of the sector.

The government's response has been to introduce a new and controversial marketing policy. Government officials have expressed concern at the changing practices of chocolate manufacturers in Europe, which are tending towards the bulk purchase of cocoa-liquor that can be delivered in tankers to their direct specifications by European processors. This trend has affected the competitive nature of Ghana's three processing factories, the operations of which, with a capacity of 40,000 tonnes a year, are already being subsidised to the tune of £3.4m a year.

In 1989 an agreement was made between the government and Walter Schroeder of Germany for the latter to process under a tolling arrangement a trial consignment of 5,000 tonnes of cocoa. Under the agreement, the cocoa-liquor was to remain the property of the Cocobod and would be marketed at its discretion. Officials of the government office responsible for cocoa, which is distinct from the Cocobod, judged the trial to be a success and declared that a total value added of £17-£52 per tonne of beans had been earned. These figures were disputed by Cocobod officials, who claimed that, with payment of costs to Schroeder, the agreement had resulted in a net loss.

Last year government officials decided to press ahead with the new policy and, despite the alleged losses, signed a second pilot agreement with Schroeder to process 10,000 tonnes of beans without consulting the Cocobod board of directors. The directors were informed of the agreement at their monthly meeting last August and in September were asked to approve a long-term co-operation project between Schroeder and Cocobod.

Since that time the Cocobod board has been reconstituted and its chairman, Mr K.G. Erbynn, who had expressed his surprise at the manner in which government officials signed contracts and formulated new policy without the knowledge of the board, has been replaced. And the Government has again accelerated its policy of contract processing with foreign companies. A three-year agreement to process a minimum of 20,000 tonnes a year has already been signed with Schroeder and there have been discussions with a second German company and with companies in Britain, France, the Soviet Union and South Korea.

Industry representatives say that government officials are keen, provided that they can find enough companies willing to agree to their requirements, to sign contracts with foreign processors for as much as 90,000 tonnes a year before the transfer from military to civilian rule, which is expected to occur next year. Proposed contracts are also likely to include options for the companies to take up the production of the domestic processors. This would result in only about half of Ghana's cocoa production being sold on the open market.

Officials of international donor agencies, which are providing concessionary finance to assist in Ghana's economic recovery, support the drive to attain added value on cocoa. Many have expressed surprise, however, at the haste with which contracts are being negotiated and concern at the possible open-ended nature of the costs that some processors may charge under tolling agreements.

But their major worry is that long-term tolling agreements will be used to forestall further reform of the Cocobod and that the foreign exchange earnings from Ghana's premier export will remain exclusively in the hands of government. While a new government may adopt a different policy, it appears that the most visible instance of private enterprise in Ghana's cocoa-industry will continue to be the hawkers selling their bars to the passing cars.

A fast-spreading mystery disease is attacking cocoa trees in Ghana's eastern region, a leading local grower says, reports Reuters from Accra.

Mr Thomas Somuah from North Birim district says the disease, which local farmers say is unlike the more common swollen shoot or black pod, initially infects leaves and later whole trees.

He appealed to state cocoa authorities to investigate the disease urgently to contain its apparently rapid spread.

Ghana is the world's third biggest cocoa producer but the eastern region is a relatively minor growing area.

Gold mine development curtailed

By Philip Gawith in Johannesburg

THE ANNOUNCEMENT yesterday by the Gencor group, South Africa's second largest mining house, that it was curtailing development of the Weltevreden gold mine was a further symptom of the industry's worst ever crisis.

Gencor said the project had been reconsidered in the light of the persistently weak rand price of gold. The current price is some 25 per cent lower in real terms than when the decision to proceed with the mine was taken. It said if existing trends continued the mine would not generate a positive cash flow in the foreseeable future. Heavy capital expenditure commitments on the platinum side, and in bringing the Oryx mine to production, probably also had a bearing on Gencor's decision.

Ironically, the announcement comes at a time when the rand gold price, at levels of about R1,060 a troy ounce, is at its highest level in 16 months. This is a combination of the recent strengthening of the dollar gold price and, especially, the weakening of the rand against the dollar. The dollar gold price – $371.25 an ounce in the London yesterday – is at its highest sustained level for more than a year and the rand has deteriorated by more than 11 per cent since December to its current level of about R2.84/$1.

The rand gold price has risen by 17 per cent since it hit a three-year low of R909 an ounce in February. In the interim, Gencor has announced the closure of its Stilfontein mine and Anglo American, the country's largest mining house, has announced a cut in its exploration efforts in the Potchefstroom gap area.

Oil price 'not manipulated'

By Barbara Durr in Chicago

THE NEW York Mercantile Exchange is feeling vindicated after a report by the US General Accounting Office said oil futures prices were not manipulated during the Gulf crisis.

The report is expected to reassure those in Congress who suspected that speculators were artificially driving up the oil price in the lead up to the Gulf war.

Some legislators had called for curbs on oil trading and even closure of the market during times of crisis.

The GAO said that trading of Nymex crude oil futures from July 30, 1990 through February 1991 "reflected actual changes in supply and demand conditions". This was the same conclusion reached by the Commodity Futures Trading Commission in an earlier investigation.

● Coastal Corporation, the US oil company, has received approval from the US government to purchase 2.5m barrels of crude oil from Iran. It marks the first import of Iranian oil into the US since the revolution over 10 years ago and paves the way for other companies to follow.

MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,600-1,650 (same).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 2.80-3.05 (2.70-3.00).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 1.60-1.75 (1.85-1.95).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 13.75-14.10 (14.00-14.40).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 110-120 (same).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.38-2.42 (2.42-2.46).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 4.80-5.40.

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO_3, cif, 54-60 (same).

VANADIUM: European free market, min. 98 per cent, $ a lb V_2O_5, cif, 2.25-2.35 (2.20-2.30).

URANIUM: Nuexco exchange /value, $ per lb, U_3O_8, 9.20 (9.30).

LME WAREHOUSE STOCKS
(As at Monday's close)
tonnes

Aluminium	+825	to 407,575
Copper	−2,475	to 270,825
Lead	−625	to 75,875
Nickel	−1,286	to 6,578
Zinc	−1,050	to 118,575
Tin	−255	to 15,025

Irish farmers call for action on lamb price fall

By Kieran Cooke in Dublin

IRISH SHEEP farmers have called for urgent action following a steep drop in lamb prices over the past four weeks.

The Irish Farmers Association says that lamb prices have dropped by nearly 40 per cent over the past month and that many thousands of Irish sheep producers now face financial ruin as a result. The price fall is blamed on a glut of animals coming on to the French market, which demand has been inadequate to soak up. But some of the sheep farmers also complain that Irish-based middlemen have been profiteering and not passing on the benefits of falling prices to customers.

In recent years there has been a dramatic growth in sheep numbers in Ireland, mainly because of the encouragement given by the European Community's system of "headage payments", which are made to farmers for livestock raised in disadvantaged areas of the country. Some sheep producers have called for an EC intervention scheme for lambs, which would provide a market of last resort and prevent surplus production depressing prices on the community market.

Ireland already has a disproportionate amount of its agricultural production in EC intervention stockpiles. Out of the present EC "beef mountain" of some 700,000 tonnes, about 250,000 tonnes originated in Ireland. Irish butter also accounts for about a third of the total at present in EC intervention stores, although the country only produces about 5 per cent of total community output.

Wool surplus 'to continue'

By David Blackwell

THE IMBALANCE between world supply and demand for wool is set to continue, at least in the short term, according to the International Wool Textile Organisation.

In spite of the suspension of reserve price schemes in Australia, New Zealand and South Africa earlier this year, the huge level of stocks amassed under the schemes will overhang the market, Mr Michael Godfrey, the organisation's secretary for statistics, told the 60th International Wool Conference in Lisbon yesterday.

"It would take a 5 per cent growth in consumption continuously over a six-year period to absorb contracting new clip supplies and to reduce carry over stocks in producing countries to a more normal level of around 200,0000 tonnes clean," he said.

World wool production is expected to fall by 4 per cent in the 1991-92 season to 1.84m tonnes, after declining by 1.2 per cent to 1.92m tonnes in 1990-91.

Consumption, which contracted by 13 per cent in 1990 to 1.5m tonnes, has started to recover. Between March and May this year the market "witnessed a remarkable turnround in the situation as buyers, in response to lower prices, moved back into the market to refill a practically empty pipeline". China and the Soviet Union, whose absence was largely responsible for the collapse in prices, were among the buyers.

However, adding carryover stocks to 1991-92 output could result in world supplies for the year of 2.58m tonnes, up 6 per cent on the 1990-91 record. Supplies are therefore likely to remain well above the expected requirements of the world wool textile manufacturing industry.

WORLD COMMODITIES PRICES

MARKET REPORT

Copper prices firmed on the LME yesterday against a background of concern over South American supplies. News that Chuquicamata copper workers had threatened fresh slow-down action and talk that Peruvian miners could strike indefinitely from next Monday prompted gains in the afternoon. The trend was also aided by the continued widening in the premium for July metal. Cash metal closed only £1.50 a tonne below the three-month price, compared with £8.50 on Monday. Three-month tin edged above $5,800 a tonne as the market shrugged off widespread talk of Malaysian banks selling stocks held since the 1985 tin crisis. The steady tone was aided by a 255 tonne fall in LME stocks and news that the ATPC had reported first quarter 1991 world stocks down 4,000 tonnes. Gold and silver eased on the London bullion market as profit taking trimmed Monday's gains. Some dealers said scale-up forward selling by gold producers was already taking place but had been disguised by the waves of good buying that were a feature of Monday's market. Operators cited forward mine sales as the most likely factor to kerb gold's recent rise. London cocoa prices lost all Monday's gains as liquidation emerged in the afternoon.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$15.20-5.30	-0.15
Brent Blend (dated)	$17.70-7.85	-.275
Brent Blend (Jul)	$17.95-8.00	-0.30
W.T.I. (1 pm est)	$19.80-19.85	-.275
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$242-244	-3
Gas Oil	$172-173	-2
Heavy Fuel Oil	$66-67	-1
Naphtha	$185-188	-10
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	371.25	-1.70
Silver (per troy oz)♣	453.5c	-1.0
Platinum (per troy oz)	$380.25	-4.00
Palladium (per troy oz)	$97.40	-1.35
Aluminium (free market)	$1290	+65
Copper (US Producer)	103.40c	-0.35
Lead (US Producer)	35c	
Nickel (free market)	378c	+1
Tin (Kuala Lumpur market)	15.45r	-0.04
Tin (New York)	267c	+1
Zinc (US Prime Western)	62c	
Cattle (live weight)†	111.61p	-1.49*
Sheep (dead weight)†	141.12p	-15.30
Pigs (live weight)†	85.34p	-2.82*
London daily sugar (raw)	$223q	+1
London daily sugar (white)	$303q	
Tate and Lyle export price	£242.5	+1.0
Barley (English feed)	Unq.	
Maize (US No. 3 yellow)	£183.00	+0.25
Wheat (US Dark Northern)	£100	
Rubber (Jul)♥	55.25p	+0.25
Rubber (Aug)♥	55.75p	+0.25
Rubber (KL RSS No 1 Jul)	231.5m	
Coconut oil (Philippines)§	$345y	
Palm Oil (Malaysian)§	$302.5t	
Copra (Philippines)§	$225x	-5
Soyabeans (US)	£163.0	-1.5
Cotton "A" index	83.85c	
Wooltops (64s Super)	375p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. q-Jun/Jul t-Jul/Sep u-Jul x-Jul/Aug y-Aug/Sep. †Meat Commission average latstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low
Aug	194.00	194.00	194.00 192.00
Oct	181.60	182.00	182.60 180.00
Dec	182.60	181.00	185.00
Mar	180.00	181.60	181.00 179.60
May	183.80	185.40	184.00
Aug	197.00	197.00	190.00
White	**Close**	**Previous**	**High/Low**
Aug	295.0	295.0	296.0 292.5
Oct	260.0	262.0	260.5 257.5
Dec	254.0	258.0	255.0 252.5
Mar	254.0	258.5	257.0 253.0
Aug	263.0		265.0 262.0
Oct	250.0		252.0 249.5

Turnover: Raw 396 (760) lots of 50 tonnes. White 1314 (257)
Paris- White (FFr per tonne): Aug 1766, Oct 1582.

CRUDE OIL – IPE ($/barrel)

	Latest	Previous	High/Low
Jul	18.10	18.04	18.25 17.92
Aug	18.48	18.43	18.58 18.30
Sep	18.79	18.75	18.86 18.65
Oct	18.90	19.04	19.10 18.90
Nov	19.10	19.14	19.10
Dec	19.15	19.25	19.15
IPE Index	18.23	18.58	

Turnover 18874 (14505)

GAS OIL – IPE ($/tonne)

	Close	Previous	High/Low
Jun	168.50	172.00	170.50 166.75
Jul	167.75	170.25	169.50 167.00
Aug	169.50	172.25	171.25 169.00
Sep	172.00	174.50	173.25 172.00
Oct	174.75	177.25	175.50 174.50
Nov	176.75	179.25	177.50 175.75
Dec	177.75	178.75	178.75 177.00
Jan	174.50	177.50	175.25 174.50
Feb	171.25	173.75	170.00

Turnover 12451 (8872) lots of 100 tonnes

JUTE
C and f Dundee BTC $490, BWC $500, BTD $450, BWD $480; c and f Antwerp BTC $460, BWC $450, BTD $435, BWD $430.

COTTON
Liverpool-Spot and shipment sales for the week ended 30 May 1991 amounted to 325 tonnes against 23 tonnes in the previous week.

COCOA – London FOX (£/tonne)

	Close	Previous	High/Low
Jul	612	623	627 610
Sep	645	656	660 644
Dec	685	696	698 683
Mar	716	728	730 715
May	737	748	737 736
Jul	758	767	767 758
Sep	776	785	790 784

Turnover: 6584 (5847) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Jun 10 795.54 (783.46) 10 day average for Jun 11 795.88 (794.39)

COFFEE – London FOX (£/tonne)

	Close	Previous	High/Low
Jul	539	542	547 537
Sep	565	567	571 564
Nov	587	589	595 586
Jan	607	609	615 610
Mar	628	629	633 630

Turnover:3105 (1632) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Jun 10 : Comp. daily 65.79 (65.81). 15 day average 66.32 (66.50)

POTATOES – London FOX (£/tonne)

	Close	Previous	High/Low
Sep	80.0	75.0	
Mar	119.0	120.0	
Apr	119.0	119.4	120.5 117.5
May	132.0	132.5	

Turnover 87 (228) lots of 40 tonnes.

SOYAMEAL – London FOX (£/tonne)

	Close	Previous	High/Low
Dec	139.00	140.50	139.00
Feb	142.00		142.00

Turnover 30 (25) lots of 20 tonnes.

FREIGHT – London FOX ($10/index point)

	Close	Previous	High/Low
Jun	1624	1618	1630 1620
Jul	1470	1465	1475 1451
Oct	1575	1564	1578 1565
Jan	1570		1575 1570
BFI	1678	1684	

Turnover 222 (161)

GRAINS – London FOX (£/tonne)

Wheat	Close	Previous	High/Low
Jun	131.75	133.35	132.00 131.60
Nov	116.00	115.65	116.00 115.40
Jan	119.70		119.75 119.20
Mar	122.80		122.80
Barley	**Close**	**Previous**	**High/Low**
Sep	110.90	111.00	111.00 110.90
Nov	114.70	114.70	114.55 114.45
Jan	117.90	117.90	
Mar	120.75	120.75	

Turnover: Wheat 146 (115), Barley 28 (20).
Turnover lots of 100 tonnes.

PIGS – London FOX (Cash Settlement) p/kg

	Close	Previous	High/Low
Sep	118.0		116.0
Oct	118.0		118.0
Nov	119.0	117.0	118.5 118.3
Jan	110.5	107.5	110.5 110.0
Feb	111.0		110.5 110.0

Turnover:217 (116) lots of 3,250 kg

MGMI – London FOX

	Close	Prev.	High	Low	Vol
Indx	138.72	135.21			
Jun	140.30	138.40	140.30	139.00	200
Jul	140.30	136.30	140.30	140.30	85

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

[illegible]				

LONDON BULLION MARKET (Prices supplied by N.M.Rothschild)

[illegible]		

TRADED OPTIONS

[illegible]		

New York

[illegible]		

CRUDE OIL (Light) 42,000 US galls $/barrel

[illegible]		

INDICES

[illegible]		

Chicago

[illegible]		

LONDON STOCK EXCHANGE

Market ignores Bank signal on rates

A WARNING from the Bank of England that it does not want UK interest rates to fall for at least nine days failed to halt a strong rise in UK equities yesterday. A firm opening to the new session on Wall Street gave London further encouragement and the FT-SE Index gained 30.7 points to close at 2,542.6, within three points of its all-time high.

Trading volume also rose significantly, with the Seaq total boosted by demand for Guinness shares by Moet Hennessy Louis Vuitton (LVMH), its French cross shareholder. The UK market was also helped by firm performances from other European bourses, especially in Germany.

The Footsie had already gained around 20 points before the Bank signalled its wishes to the London money market.

Account Dealing Dates		
*First Dealings:		
June 3	Jun 17	Jul 1
Option Declarations:		
Jun 13	Jun 27	Jul 11
Last Dealings:		
Jun 14	Jun 28	Jul 12
Account Day:		
Jun 24	Jul 8	Jul 22

*New-time dealings may take place from 8.30 am two business days earlier.

In addition to its optimism on base rates, which had been initially encouraged by a further dip in money market rates – rates rallied later – equities drew strength from LVMH's foray into Guinness shares. Some UK institutions took the opportunity to lighten their Guinness holdings and to re-invest in other consumer stocks.

The Bank's rates signal appeared to be somewhat counter-productive, in that market strategists regarded it as no more than a postponement of base rate cuts; and drew increased confidence from the equity market's evident resilience in the face of the Bank's move.

But the final boost to the stock market came from Wall Street which gained 22 Dow points in early trading to move to within four points of 3,000, its own testing level.

Yesterday's gain in the Footsie left it challenging, not only the existing all-time high, but also the top end of its latest trading range. Seaq-reported trading volume increased to 510.8m shares yesterday from the 373.1m of the previous trading session. Although part of the increased volume reflected hurried activity by equity marketmakers who had been caught short of stock, it was a welcome development in a market so thinly-traded over recent weeks.

There were further signs of institutional support for the market, notably in the swift placing by Warburg Securities and Panmure Gordon of the remaining 3.9m shares in Argyll left over from a recent rights issue. Three institutions are believed to have offered to take up the entire offering, and in the event the share block was heavily over-subscribed and taken up within minutes.

The less positive side of the session came when Tarmac, one of the largest housebuilders in the UK, delivered a strongly-worded warning on profits. Tarmac's statement at the group's annual meeting unsettled the building and construction sector which has been so badly hurt by high interest rates and served to counter-balance the day's focus on the chances of another cut in base rates before the end of this month.

Wall Street-orientated stocks made a brave showing in London as the Dow Jones Industrial Average returned towards its very recent peaks. With the exception of ICI, still held back by the uncertainty surrounding the intentions of the Hanson camp, there were widespread gains among the international blue chips.

Glaxo rebounded again after its pause for profit-taking and BAT Industries and BOC were in demand. The leading oil stock s which have lately been on the sidelines, moved higher in late dealings. Consumer issues made a more aggressive response to expectations of lower interest rates than in the previous session.

FINANCIAL TIMES STOCK INDICES

	June 11	June 10	June 7	June 6	June 5	Year Ago	1991 High	1991 Low	Since Compilation High	Since Compilation Low
Government Secs	83.93	83.93	83.88	83.73	83.71	78.80	85.86 (19/2)	82.17 (2/1)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	92.94	92.96	93.52	93.42	93.39	87.61	94.84 (5/4)	90.59 (2/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1991.1	1964.4	1956.2	1974.1	1974.8	1901.0	2014.5 (5/4)	1608.3 (16/1)	2014.5 (5/4/91)	49.4 (26/6/40)
Gold Mines	209.1	201.7	195.4	182.4	181.2	184.5	209.1 (11/6)	127.0 (22/2)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2542.6	2511.9	2508.3	2525.3	2521.5	2370.7	2545.3 (5/4)	2054.8 (16/1)	2545.3 (5/4/91)	986.9 (23/7/84)
FT-SE Eurotrack 200	1190.60	1184.48	1184.89	1188.91	1192.11	-	1192.11 (5/6)	938.62 (16/1)	1192.11 (5/6/91)	938.62 (16/1/91)
Ord. Div. Yield	4.79	4.86	4.88	4.83	4.83	4.85				
Earning Yld % (full)	8.48	8.49	8.52	8.43	8.44	10.71				
P/E Ratio (Net)	14.55	14.57	14.52	14.67	14.65	11.32				
SEAQ Bargains 4.45pm	26,992	24,546	24,127	24,546	24,642	25,394				
Equity Turnover (£m)†	-	891.12	814.38	802.54	806.11	801.90				
Equity Bargains†	-	24,006	22,736	24,157	24,686	24,741				
Shares Traded (ml)†	-	382.4	341.4	352.1	352.1	360.0				

[illegible] (Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55, Basis 1000 FT-SE 100 31/12/83 & FT-SE Eurotrack 200 26/10/90.)

Ordinary Share Index, Hourly changes — Day's High 1991.1 — Day's Low 1968.6

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1968.6	1975.3	1977.6	1984.9	1983.4	1983.0	1981.3	1982.8	1989.2

FT-SE 100, Hourly changes — Day's High 2543.0 — Day's Low 2517.8

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2517.8	2525.6	2528.4	2535.1	2533.4	2532.6	2531.0	2533.0	2542.1

FT-SE Eurotrack 200, Hourly changes — Day's High 1191.03 — Day's Low 1187.07

Open	10 am	11 am	12 pm	1 pm	2 pm	3 pm
1187.15	1187.84	1189.01	1187.98	1187.45	1187.82	1189.17

GILT EDGED ACTIVITY

Indices*	June 10	June 7
Gilt Edged Bargains	92.8	82.4
5-Day average	89.3	86.4

*SE Activity 1974. †Excluding intra-market business & Overseas turnover.

London report and latest Share Index: Tel. 0898 123001

Tarmac under pressure

The building materials and construction sector was shaken by a profits warning from Tarmac. The shares, having opened on a steady note at 335p, sustained by optimism about the chances of another cut in interest rates, came under pressure as the warning was quickly relayed to the market.

Tarmac retreated to a day's low of 325p but later steadied, helped by the overall mood of optimism in the market, to close a net 2 off at 333p. Turnover reached 4.4m, well up on usual levels for the shares.

Analysts were shocked by the starkness of the Tarmac warning. Tarmac, said its chairman, would show a very severe profit shortfall in the first half of 1991 compared with the first half of 1990. He added that since April the company had seen a further deterioration in the trading outlook.

Interim forecasts were cut back severely after the warning, with specialists looking for an interim £25m and a full year figure no more than £100m, against £97m and £191m last year.

Blue chip losers

Three of the 15 fallers in the FT-SE 100 index were ICI, Hanson and Wellcome, which have been the subject of bid and merger speculation in recent weeks. The retreat was triggered by suggestions that the possibility of a link between Wellcome and ICI's drugs division had become more remote. The tie-up had been suggested by analysts as a means by which ICI could pre-empt a bid from 2.8 per cent stakeholder Hanson.

Investors were further encouraged to avoid the triumvirate by the fact that ICI and Wellcome have been the top two Footsie performers during the second quarter of the year. With less than three weeks of the quarter to go, fund managers were keen to lock in profits.

In addition, Mr Jack Jones at UBS Phillips & Drew has issued a cautious note on Hanson. He argues that any bid moves for ICI would stimulate the anti-takeover faction to seek out and publicise any weaknesses in the Hanson camp. The publicity generated would probably not help the Hanson share price.

ICI slipped 3 to 1302p, Hanson eased 1½ to 221p, and Wellcome edged 3 lower to 822p. Trading volume in all three was high.

The arrival of almost £240m in the pockets of fund managers, in exchange for Guinness shares sold to LVMH, gave a boost to other companies involved in distilling. Allied-Lyons climbed 14 to 565p and Grand Metropolitan rose 12 to 774p. Second line distillers also benefited, with Highland Distilleries 4 firmer at 262 and Invergordon 2 better at 182p.

Ratners, the UK's biggest jewellery retailer, dropped 7 to 154p, following news that the company intends to raise up to $100m from an issue of variable term US preference shares.

Burdening the share price were profits downgrades by a number of leading UK broking houses. The stores team at Kleinwort Benson cut its current year's forecast from £125m to £100m, while County NatWest, Ratner's broker, moved from £130m to £112m.

Mr Nick Hawkins at Kleinwort said he reduced his estimate "because the gap between costs (about 10 per cent per annum) and sales is widening and because the company is caught between an unpleasant squeeze on sales and the hike in VAT." He expected that the dividend will be held in spite of the cover shrinking to 1.5 times.

Tie Rack slipped 2 to 26p after unveiling a £3.1m rights issue of 17m new shares at 22p a share. The group warned of a first half loss and said the roles of chairman and chief executive are to be split.

Fine Art Developments were supported by BZW, whose stores team said the group "is not yet discounting the prospect of a sharp acceleration in earnings growth in 1992-3 and beyond nor the longer term potential of the tie-up with Otto Versand." The shares closed 5 up at 313p. Rumoured downgrades left Argos 6 easier at 300p.

BTR firmed 11 to 410p as UBS Phillips & Drew put the stock back on its buy list after a meeting with the company. The broker said that profits seemed to be more resilient than the annual meeting had suggested.

British Gas rose 5 to 255p on 5.7m shares after a presentation to more than 50 institutions by the company at its stockbroker Hoare Govett. Directors on the main board of British Gas told the meeting that the company intends to implement real growth in dividends. The seminar offset a cautious document issued by County NatWest which said the growing importance of exploration and production earnings within Gas's income stream would constrain dividend growth.

London International, which publishes final results tomorrow, climbed 8 to 265p as Hoare Govett issued a detailed buy note on the stock. The broker said that a surge in earnings next year should take the shares below an average price/earnings ratio for the market.

A 31 per cent fall in full-year profits to £16.5m from Amersham International had been more than discounted by the market. The shares rose 9 to 344p. Pharmaceutical wholesaler AAH climbed 8 to 354p ahead of finals today.

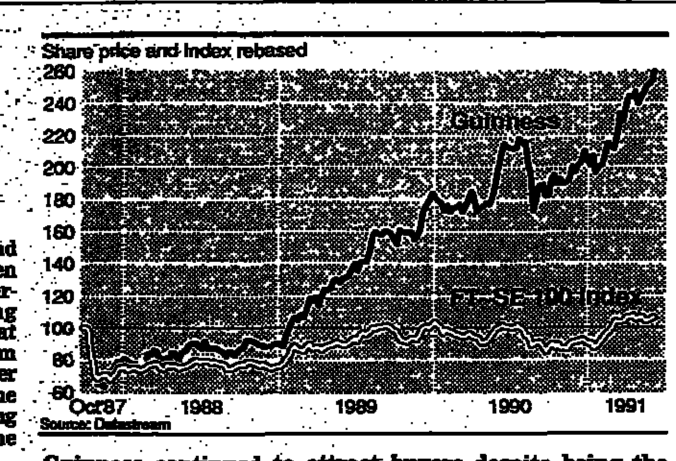
The market gave a rousing reception to Northern Foods' preliminary figures which showed profits above expectations. Northern Foods shares jumped 20 to 470p.

The food retailers were among the market's poorest performers, slipping back after some determined selling pressure. Asda was the hardest hit, the shares still feeling the draught from the resignation of the chairman and chief executive as well as that of the chief executive of the stores division. These moves upset the market, which is preoccupied with worries that Asda may be considering a sizeable rights issue to ease its debt burden. Asda shares lost 7 to 108p.

Sainsbury shares were slightly easier at 372p, as were Tesco, 280p, on the back of ASDA but Argyll performed exceptionally well to close 5 higher at 311p after news that the rights issue was taken up as to 97.5 per cent. The rump, some 3.9m shares, was placed in the market at 298p share.

Kwik Save advanced 11 to 620p after County NatWest added the stock to its prestigious "County 30" list of best buys, emphasising its growth potential. Kwik Save's inclusion in the County 30 was at the expense of BT which County said had outperformed the market by 13 per cent during the past three months and was beginning to meet resistance.

■ Other market statistics, including the FT-Actuaries Share Indices and London Traded Options, Page 25.



Source: Datastream

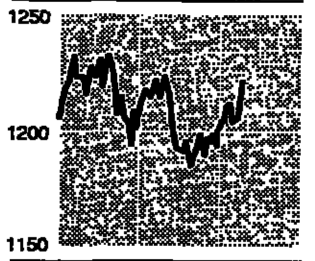
Guinness continued to attract buyers despite being the best performing FT-SE stock during the three and a half years since the crash of 1987. Yesterday French luxury goods group LVMH topped up its holding to its former level of 24 per cent – it had been diluted by a conversion of Guinness cumulative redeemable preference shares. Turnover rose to 45m as the price climbed 30 to 996p. At the close, marketmakers were offering £10 a share, the level up to which LVMH said it was prepared to pay.

NEW HIGHS AND LOWS FOR 1991

[illegible] RCO, Ramco Oil, Smith & Nephew, Stora B Free, Williams, Wolseley, INSURANCE (1) Alex. & Alex. Servs. 11pc Deb. 2007, MOTORS (2) Sanderson Murray & Elder, Volkswagen, PAPERS (2) Ferguson Intl., Gold Greenlees Trott, SCA B Free, SOUTH AFRICANS (1) Tiger Oats, TOBACCOS (1) Rothmans B, TRANSPORT (3) Brit. Airways, Do Cap. 8¼pc Cnv., Ioff Steam, TRUSTS (28) Baring Puma, Danae Inc., Dunedin [illegible] Winkelhaak, Zandpan.

NEW LOWS (17). ELECTRICALS (3) Oxford Instrs., Sintrom, Trace Comps., INDUSTRIALS (3) Davies (DY), GCF, Stormgard, INSURANCE (1) Archer (A.J), LEISURE (2) Anglia TV, Marina Devs., PROPERTY (2) Cardiff, Rosehaugh, TEXTILES (1) Aitoh, TRANSPORT (1) Lep, TRUSTS (1) Caledonia, OILS (2) Brabant, Ex. Co. of Louisiana, MINES (1) Vizcaya.

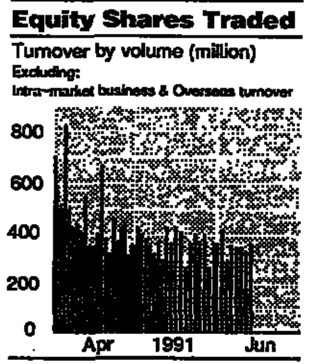
FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)

Excluding: Intra-market business & Overseas turnover



TRADING VOLUME IN MAJOR STOCKS

[illegible]

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm.

EQUITY FUTURES AND OPTIONS TRADING

It was and exciting session in the derivates sector yesterday as professional traders and institutions struggled to come to terms with the chances of another early cut in UK base rates. Tension mounted early in the stock index futures market when a large discount house, reportedly Gerrard and National, bought heavily into the FT-SE June future contract.

The discount house was a persistent buyer of the June contract while the contract traded at just below its 6 point fair value to the underlying cash Index; fair value estimates allow for the impending dividend flow and financing costs involved in the price of stock in the Footsie Index.

The activity then triggered a flow of stop-loss buying orders at around 2540 from investors with positions to cover. The contract moved higher to challenge the 2550 which would equal the existing peak in the underlying FT-SE Index but proved unable to advance beyond this point. Locals, or private traders in the futures market, also took a hand at this point as did marketmakers in the stock market who evidently been caught badly short of stock when the equity market turned higher.

Traded options were also busier, recording 27,783 contracts against 16,880 on Monday, with the FT-SE option at 4,279 against 3,489.

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

[illegible]

BRITISH FUNDS—Contd

Over Fifteen Years

Undated

Index-Linked

[illegible]

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for September 1990: 129.3 and for April 1991: 133.1.

INT. BANK AND O'SEAS

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

FOREIGN BONDS & RAILS

[illegible]

Continued on next page

APPOINTMENTS

Managing director at TSB

■ Mr John Elbourne, currently group director (UK operations) at Legal & General, is to join TSB as managing director, insurance on July 1. He will be responsible for the management and development of TSB's life and pensions and unit trust businesses, based in Andover, and TSB's general insurance business in Newport.

■ Mr Lewis Evans, 53, a former corporate finance director of Lloyds Merchant Bank, has been appointed managing director of GIROBANK, the telephone and post office banking subsidiary of Alliance & Leicester Building Society from July 1, *writes David Barchard*. He has also joined the Girobank board.

Mr Evans replaces Mr John Baden, 62, who is retiring but will remain a non-executive director on Girobank's board.

■ Mr William Brown has been elected chairman of SCOTTISH TELEVISION. He succeeds Sir Campbell Fraser who has retired. Mr Brown, ITV's longest serving chief executive, was managing director of the company for 24 years.

■ PERSHING, the specialist securities clearing company and subsidiary of Donaldson Lufkin & Jenrette Securities Corporation, has promoted Mr Trevor J. Jones to director and chief operating officer from his previous position of associate director.

■ HEADLAM GROUP has appointed Mr Alan Morris as a main board director.

■ Mr Cheong Lau has been appointed assistant financial controller and assistant company secretary to CAUSEWAY GROUP, independent development capital managers.

■ At HIGGS AND HILL HOMES Mr R.W. Robinson *(pictured)* has become managing director. He was formerly Midlands regional director at Beazer Homes.

■ Mr Robert Lawrence has joined WADLOW GROSVENOR INTERNATIONAL as business development director.

■ STOVES, the domestic appliance manfacturing company based in Prescot, Merseyside, has made Mr Guy Weaver its marketing operations director. Mr John Wilson has become general manager of the powered showers division.

■ Mr Richard Middleton has been appointed managing director of Aylesbury-based GRANADA BUSINESS COMMUNICATIONS. He has worked for Granada for 17 years and moves from National Telebank, the TV rental company, where he was director and general manager.

Mr Frank McDermott, Granada UK rental sales and operations director, takes on the responsibility for National Telebank, in addition to the Granada and Visionhire shop chains.

■ Mr Bryan Patterson, a director of an old-established family company of ironmongers in Bristol, has been made national president of the BRITISH HARDWARE FEDERATION.

■ Mr Fredrick Walters, a partner since 1973, has become senior partner at the firm of URQUHART-DYKES AND LORD, patent agents.

■ Mr John J. Ruzich, an executive in the airline industry for 23 years, has been named president of BRITISH-AMERICAN CHAMBER OF COMMERCE, a private transatlantic business organisation. Mr Ruzich, who joined Pan American World Airways in 1988, is currently managing director of sales for the airline's US division.

■ Mr Richard Price, chief executive of Primetime/RPTA, the independent UK programme distributor, has been elected chairman of THE BRITISH ACADEMY OF FILM AND TELEVISION ARTS. He takes office at the end of June and succeeds Mr Kevin Billington, who remains on the Council as deputy chairman.

Senior posts at Reckitt & Colman

■ Mr M.F. Turrell is appointed group director, North America at RECKITT & COLMAN on October 1 in succession to Mr V.L.Sankey whose appointment as chief executive designate was announced recently. After extensive experience overseas during which time he held general management positions in Africa and South America, Mr Turrell was appointed to his present role as managing director of Colman's of Norwich in 1989.

Mr J.C.L. de Mel is appointed group director, Asia and Australasia on October 1, succeeding Mr P.C. Knee who reaches retirement age.

Mr de Mel joined the group in Sri Lanka in 1964 and became managing director there in 1971. In 1977 he was appointed regional director, Asia. For the past three years he has been in Singapore.

LONDON SHARE SERVICE

AMERICANS

1991 High	Low	Stock	Price $	+ or −	Div Gross	C'vr	Y'ld Gr's
30¾	20⅞	Abbott Laboratories	29 1/16	−⅛	$1.00	−	2.0
385p	257p	♦Allegheny & W 1c.	337p	.....	30c	−	5.3
10¼	667p	Amdahl 5c.	977p	+4	10c	−	0.6
38½	25¾	Amer. Cyanamid $5	37¾	−½	$1.50	−	2.4
17⅞	9⅞	Amer. Express 60c	14½	−⅛	92c	−	3.8
22⅝	15¼	American T. & T. $1	21¾	−⅛	$1.32	−	3.6
38⅝	32½	Ameritech $1	34½	+½	$3.16	−	5.4
23⅞	12⅛	BankAmerica $1⅝	23	−⅛	$1.20	−	3.1
33¾	20⅛	Bankers N.Y. $1	33¾	+⅛	$1.52	−	8.5
29⅝	24¼	Bell Atlantic $1	26⅝	+⅛	$2.36	−	5.2
31¼	25	BellSouth Corp	28½	.....	$2.68	−	5.6
9⅝	6⅞	♦Bethlehem Steel $8	9½	−⅛	40c	−	2.5
1760p	1046p	Bowater Inc	1758p	+22	$1.20	−	4.0
9½	4½	Brunswick 75c	8⅞	+⅛	44c	−	2.9
52⅞	37⅞	CPC Intnl. 25c	51½	+⅛	$2.00	−	2.3
852p	420p	California Engy	747p	−7	−	−	−
50	28¼	Campbell Soup 15c	44⅛	−½	$1.16	−	1.6
12⅞	5⅞	Chase Manhattan $12½	12⅜	+⅛	$1.20	−	5.7
8⅞	5½	Chrysler $6¼	8⅞	−⅛	60c	−	4.2
10⅝	5⅞	Citicorp $1	10¼	−⅛	$1.00	−	5.8
24⅝	21⅞	Colgate-Palmolive $1	23¾	−⅛	$1.06	−	2.7
845p	438p	Cont'l Bank Corp $4	841p	−4	$1.00	−	7.0
21⅞	13⅞	Dana Corp. $1	20⅞	−⅛	$1.60	−	4.7
1056p	203p	Data General	969p	−4	−	−	−
21⅞	12⅞	Dial Crop. $1.5	21⅛	+½	$1.40	−	3.9
29	20⅞	Dun & Bradstreet $1	27¼	−⅛	$2.16	−	4.6
36	24¼	Eaton Corpn. 50c	35⅞	.....	$2.20	−	−
8¼	5½	Echlin Inc.	7⅞	−⅛	70c	−	5.2
18⅝	14⅞	FPL Group 1c	18⅛	+⅛	$2.40	−	7.8
29⅞	17⅞	Fluor Corp 62½pc	28⅛	−⅛	32c	−	0.7
21¼	13⅛	Ford Motor $1	20½	−⅛	$1.60	−	2.9
45¼	28⅞	Gen. Elect. 63c	44⅝	−⅛	$2.04	−	2.7
539p	270p	♦General Host Corp $1	539p	.....	34c	−	3.7
45¼	20⅞	Gillette $1	21⅞	−⅛	62c	−	1.7
91p	33p	Gt American Bank $1	37p	.....	−	−	−
18¼	794p	Hasbro Inc 50c	17½	.....	24c	−	0.8
37½	21¼	Honeywell $1½	36⅛	−1	$1.50	−	2.5
22⅝	17⅞	Houston Inds.	21⅝	+⅛	$2.96	−	8.1
72⅞	55⅞	IBM Corpn $1¼	61½	+⅛	$4.84	−	4.7
31¼	18⅞	Ingersoll-Rand $2	29⅞	−⅛	$1.32	−	2.6
26¼	16½	Lockheed Crpn. $1	24⅛	+⅛	$1.80	−	4.4
24⅝	18⅞	Louisiana Land 15c	20⅝	.....	$1.00	−	2.9
2104p	1245p	Lowe's 50c	2021p	−29	56c	−	1.6
16⅝	9½	Manuf. Hanover $1	15½	−⅛	$3.28	−	12.5
24½	10⅞	Merrill Lynch $1	24⅛	−⅛	$1.00	−	2.5
18⅞	11½	Molex Inc.	15⅞	.....	4c	−	0.1
32⅞	21⅞	Morgan (JP) $2½	32¼	−½	$1.98	−	3.6
40⅞	25⅞	Morris (Philip)	39¾	+¼	$1.72	−	2.6
43¼	34	NYNEX $1	40¾	−½	$4.56	−	6.6
89p	31p	♦Pac. Agricultural	37p	+1	−	−	−
22⅞	11⅞	Pall Corp. 25c	21⅝	−⅛	44c	−	1.2
44½	33¼	Pennzoil 83 1/3c	41⅞	+⅛	$3.00	−	4.3
34¾	24⅞	Quaker Oats $5	34⅞	+⅛	$1.56	−	2.7
37⅝	24⅞	Rep NY Corpn $5	36⅞	−⅛	$1.40	−	2.3
16⅝	12⅛	Rockwell Intl. $1	15⅞	−⅛	86c	−	3.4
29	12⅞	Sears, Roebuck 75c	23⅞	−⅛	$2.00	−	5.0
32	25⅞	Southwestern Bell $1	29⅞	+⅛	$2.84	−	5.6
20¼	14⅞	Sun Co. Inc. $1	19⅝	+⅛	$1.80	−	5.4
27⅛	21⅞	Tenneco $5	25¼	−⅛	$3.20	−	7.0
40½	29⅞	Texaco $6.25	38⅞	−⅛	$3.20	−	4.9
26⅛	17¼	Texas Instr. $1	21½	−1⅛	72c	−	2.0
71½	41⅞	Time Warner $1	56⅞	−⅛	$1.00	−	1.0
16⅛	8⅞	TRINOVA Corp.	15⅝	−⅛	68c	−	2.6
19⅞	14⅛	USX $1	19⅞	.....	$1.40	−	4.3
400p	250p	♦Unilab	400p	+27	−	−	−
28	22¼	Utd. Technologies	27⅛	+⅛	$1.80	−	4.0
71p	42p	♦Utilitech Inc.	61p	+2	−	−	−
23	18¼	US West	21¾	+⅛	$2.08	−	5.7
24½	16⅝	Waste Management $1	23⅞	.....	44c	−	1.1
1965p	1053p	♦Whirlpool $1	1946p	+16	$1.10	−	3.3
20⅞	13½	♦Woolworth $3½	19¼	−½	$1.08	−	3.3

CANADIANS

1991 High	Low	Stock	Price $	+ or −	Div Gross	C'vr	Y'ld Gr's
10 1/16	8½p	♦Abbot Energy Corp.	10½p	.....	−	−	−
1302p	953p	♦Amer. Barrick Res.	1302p	.....	8c	−	0.3
19¼	13	Bk. Montreal	19¼	.....	$2.12	−	5.6
931p	536p	Bk. Nova Scot.	931p	.....	$1.00	−	5.5
797p	639p	♦BC Gas $1	794p	.....	60c	−	3.8
22¼	17¼	BCE	22	−¼	$2.56	−	5.9
10¼	647p	♦Brascan	10¼	+¼	$1.04	−	5.2
36p	19½p	♦Breakwater Res.	26p	.....	10c	−	19.6
1691p	1180p	Can. Imp Bank	1691p	+24	$1.32	−	4.0
10⅞	855p	Can. Pacific	10¼	−⅛	64c	−	3.2
36	30	Do. 4pc Deb £100	34	−1	04%	−	13.6
335p	170p	♦Central Cap 'A'	267p	.....	60c	−	11.4
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BANKS, HP & LEASING

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Hire Purchase, Leasing, etc.

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BEERS, WINES & SPIRITS

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BUILDING, TIMBER, ROADS

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BUILDING, TIMBER, ROADS — Contd

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CHEMICALS, PLASTICS

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DRAPERY AND STORES

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DRAPERY AND STORES — Contd

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ELECTRICALS

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ELECTRICITY

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ENGINEERING

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FOOD, GROCERIES, ETC

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

HOTELS AND CATERERS

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

For Trusthouse Forte see Forte

INDUSTRIALS (Miscel.)

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INDUSTRIALS (Miscel.) — Contd

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INDUSTRIALS (Miscel.) — Contd

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INSURANCES

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON SHARE SERVICE

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LEISURE

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRANSPORT

TRANSPORT—Contd

INVESTMENT TRUSTS

INVESTMENT TRUSTS—Contd

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

WATER

OIL AND GAS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Contd

Tins

Miscellaneous

Stock	Price	+ or -	Div Net	C'vr	Y'ld Gr's
Twerna West.....y	53	.....	-	-	-
Kells Mins. Ir5p ..y	37	.....	-	-	-
Kenmare ....y	14	.....	-	-	-
Navan Resources....y	18	.....	-	-	-
Northgate Expl. C$1..	81	.....	-	-	-
North West Exp...	6	.....	-	-	-
Nor-Quest Res.	10¾	.....	-	-	-
Oryx Gold Hldgs.......	115	.....	-	-	-
Ovoca Gold IR 2p..y	16	+1	-	-	-
Plateau Mining 20p... β	32	-1	-	-	-
RTZ 10p. ....α	572	+13	19.5	2.2	4.5
Thorco Res. Inc.£....	6¼	.....	-	-	-
Vizcaya Hldgs 5p... β	5	-1	-	-	-
Young Group 10p.. β	126	.....	5.2	◆	5.5

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha refers to shares traded through SEAQ by at least two marketmakers and with a normal market size of 2,000 or more, based on experience of how many of its shares are traded in the typical deal. β Beta refers to all other shares. γ Gamma refers to other traded instruments.

Highs and lows are based on intra-day mid prices. Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Not officially listed.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1990-91. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1991. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1991-92. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1991. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations. xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Stock	Price	+ or -
Craig & Rose £1.. β	650	.....
Finlay Pkg. 5p.... β	28	.....
Holt (Jos) 25p..... β	1820	.....
Helton Hldgs.......y	41	.....
IRG..................	145	.....
United Drug.........	172	+2

IRISH

Stock	Price	+ or -
Cap. 8½% Ln. 1991..	£99¼	.....
9pc Cap Ln. 1996..	£98¼	.....
Fin. 13% 97/02...	£115	.....
Arnotts	165	.....

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	46
Amstrad	7
Astec (BSR)	6
BAT	60
BOC Grp.	31
BTR	33
Barclays	38
Blue Circle	24
Boots	30
Bowaters	53
Brit Aerospace	56
British Steel	12
Brit. Telecom	29
Cadburys	33
Charter Cons.	45
Comm Union	44
Courtaulds	32
Eurotunnel	50
FKI	6
FNFC	20
Gen Accident	40
GEC	17
Glaxo	80
Grand Met	62
Guardian	19
GKN	31
Hanson	19
Hawker Sidd	39
ICI	80
Ladbroke	22
Legal & Gen	36
Lex Service	20
Lloyds Bank	30
Lucas Inds.	13
Marks & Spencer	21
Midland Bk	18
Nat West Bk	27
P & O Dfd	51
Racal Elect	14
RHM	28
Rank Org Ord	63
Ratners	17
Reed Intnl	36
Sears	8½
SmKl. Beecham A	58
TI	45
TSB	12
Tesco	21
Thorn EMI	64
Trust Houses	23
T&N	15
Unilever	60
Vickers	19
Wellcome	40

Property

Brit Land	30
Control Secs	3
Land Securities	45
MEPC	48
Mountleigh	8½

Oils

Aviva Petlm	3
Brit Petroleum	28
Burmah Castrol	49
Conroy Petlm	10
Gaelic Res.	1
Premier	6
Shell	41
Tuskar Res	2
Ultramar	30

Mines

Lonrho	21
RTZ	48

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1,150 a year for each security shown, subject to the Editor's discretion.

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AUTHORISED UNIT TRUSTS

MGM Unit Managers Ltd (1000)H
MGM House, Heene Rd, Worthing
Dealing: 0277 261010 Enq: 0903 204631

	Init Chrg	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
High Income F	5	262.0	264.9	281.8	+2.4	6.38
(Accum Units) F	5	412.0	416.7	443.2	+3.7	6.38
UK Growth F	5	303.7	308.2	327.8	+2.8	4.41
(Accum Units) F	5	359.5	364.8	388.0	+3.3	4.41
Int. Equity Gth & F	5	31.97	32.15	35.47	+0.27	1.52
Intl Bond F	5	50.87	50.87	53.49	+0.05	7.17
Special Sits F	5	18.44	18.44	20.28	-0.04	2.18
North American F	5	67.88	68.15	72.50	.....	1.14
European Growth & F	6	50.54	50.77	54.01	+0.59	1.48

NW Investment Managers Ltd (0659)F
46 Court St, Haddington, E. Lothian 062 082 5867

	Init Chrg	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
NW John Investors	0	1043.7	1043.7	1074.1	—	4.66

Malden Unit Trust Managers Ltd (1400)F
15 St Botolph St, London EC3A 7EE 031 226 6066

	Init Chrg	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Malden General	0	116.0	116.0	119.1	.....	4.89

Manulife Management Ltd (1200)H
St George's Way, Stevenage Dealings 071-256 5858

	Init Chrg	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Growth Units	5¼	133.6	133.6	142.1	+1.1	3.98
Gilt & Fxd Int	5	140.8	140.8	148.1	.....	8.69
Intl Growth	5¼	151.2	152.6	162.3	.....	0.40
North American	5¼	98.50	100.0	106.4	-0.5	0.30
Far East	5¼	119.3	120.4	128.1	+0.5	0.33
UK Smaller Cos	5¼	106.2	109.9	116.9	-0.4	2.99
European	5¼	55.86	55.86	59.56	+0.6	1.16
Japanese Growth	5¼	37.49	37.49	40.17	+0.04	0.00
Managed P'folio	5¼	49.58	50.00	53.20	+0.32	1.67
High Income	5¼	150.0	151.9	161.6	+1.1	6.04
High Yielding Gilt	5¼	60.81	60.81	64.09	+0.05	9.59
Cash		50.87	50.87	50.87	+0.01	10.17

Morgan Grenfell Unit Tst Mgrs Ltd (1000)H
20 Finsbury Circus, London EC2M 1UT
Dealers: 071-826 0826 Enquiries: 071-826 0123

	Init Chrg	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
American Gwth	5¼	154.1	154.1	164.6	-1.3	0.92
European Gwth	5¼	201.5	201.5	215.0	+1.2	0.00
Intl Gwth	5¼	147.1	147.1	156.4	+0.6	0.00
UK Equity Inc	5¼	117.6	117.6	126.4	+1.0	6.41
UK Equity Acc	5¼	132.4	132.4	142.4	+1.2	6.41
UK Intl Tracker Inc	5	122.1	122.1	130.4	+1.1	3.85
UK Intl Tracker Acc	5	130.5	130.5	139.4	+1.2	3.85
US Eq Intl Tracker Inc	5	144.8	144.8	158.3	—	2.89
US Eq Intl Tracker Acc	5	149.5	149.5	160.3	—	2.89
Japan Tracker	5	63.10	63.10	66.92	+0.14	0.00
Asian Tracker	5¼	86.76	86.76	92.88	+0.31	1.45
Managed Inc	5¼	98.97	98.97	106.4	+0.4	2.01
Managed Acc	5¼	100.9	100.9	108.5	+0.4	2.01
Cash Inc	0	100.09	100.09	100.09	+0.02	11.88
Cash Acc	0	108.45	108.45	108.45	+0.03	11.88
Europa	5¼	106.1	106.1	113.4	+0.9	0.00

Geoffrey Morley Unit Mgrs Ltd (1200)F
5 Bedford Park, Croydon CR0 2AQ 081-686 9818

	Init Chrg	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Exempt Unit Tst	4	119.00	119.00	126.86	+0.77	2.60
Exempt Smllr Cos	5¼	226.18	226.18	245.64	+0.40	1.40

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♠) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♣) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation,
Centre Point,
103 New Oxford Street, London WC1A 1QH
Tel: 071 – 379 – 0444.

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 45p per minute peak and 34p off peak, inc VAT. To obtain your free Unit Trust Code Booklet ring (071) 925-2128.

Stewart Ivory Unit Tst Mgrs Ltd (1200)H
45 Charlotte Sq, Edinburgh 031-226 3271

	Init. Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
American	5	300.3	301.3	320.9	-2.6	1.33
(Accum Units)	5	352.5	352.5	376.1	-1.9	1.33
British	5	794.6	794.6	840.5	+4.0	3.72
(Accum Units)	5	1272.1	1272.1	1345.8	+6.3	3.72
European	5	335.1	336.1	357.2	+1.0	1.48
(Accum Units)	5	359.2	359.2	382.9	+1.1	1.48
Japan	5	121.3	121.5	129.1	+1.1	
(Accum Units)	5	122.4	122.4	130.1	+1.1	
New Pacific	5	172.7	172.7	183.6	+2.8	1.96
(Accum Units)	5	176.8	176.8	188.0	+2.9	1.96
PEP June 5	5	133.7	136.4	144.3		3.50
Mngd Equity June 11	5	121.7	123.6	130.8	+0.9	3.56
Mngd Equity Acc June 11	5	125.9	127.9	135.3	+0.9	3.56
Mngd Cash	5	97.02	97.02	101.8		11.26
(Accum Units)	5	112.4	112.4	117.9		11.39
Mngd Fund Intl Acc June 10	5	128.0	128.9	134.8		6.49
Majority Stlg	1	100.96	100.96	101.96	+0.02	11.02
Majority Stlg Acc	1	103.78	103.20	104.81	+0.02	11.02

Edinburgh Fund Mngrs PLC
Exempt Funds

	Bid Price	Offer Price	+ or -	Yield Gross
American June 12	159.8	164.2		1.52
Managed June 12	144.3	149.7	+1.0	3.84
Japan June 6	120.8	124.1	+2.4	0.08
Sm Jap Cos June 7	580.5	599.5	+7.8	0.08

Fidelity Investment Services Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Mngd Pens P'folio	131.1	135.3	+0.70	3.70

Robert Fleming Asset Mngmt Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Am Exempt	$479.20	486.32	-2.05	1.56
Gen Exempt	£130.83	133.79	-0.16	3.82
Jap Exempt	£481.09	490.64	-10.97	0.81
Pacific Exempt	£100.25	102.38	-0.39	2.34
Contl Euro Exempt	£99.51	101.49	-1.28	2.08
Interntl Exempt June 6	£127.24	130.41		5.00
Amer Index Expt June 6	£105.12	106.17		2.86
Japan Index Expt June 6	£66.89	68.24		0.65
Euro Index Expt June 6	£99.57	101.57		2.77
UK Index Expt June 6	£101.52	103.56		2.17

Stewart Ivory Unit Tst Mngrs (Standard) Ltd (1200)F
Admin: 5 Rayleigh Rd, Hutton, Brentwood, Essex
Enquiries: 0277 227300 Dealing: 0277 261010

	Init. Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
International May 31	0	50.66	50.66	51.02		3.39

Funds in Court*

	Bid Price	Offer Price	+ or -	Yield Gross
Capital May 22	490.86	494.47		2.40
Gross May 22	188.97	190.50		9.71
High Yield May 22	295.65	298.05		6.95

* Restricted to monies under Court control

Sun Alliance Unit Tst Mngmt Ltd (1200)F
Sun Alliance House, Horsham 0403 56293

	Init. Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Equity	6	594.6	602.2	644.1	+4.0	3.39
North America	6	79.02	79.02	84.53	+0.18	1.03
Far East	6	95.71	95.71	102.4	+0.7	1.03
W'wide Bond	6	46.38	46.38	49.32	+0.36	5.94
W'wide Financial	6	35.52	35.52	37.99	+0.21	4.17
W'wide Technology	6	42.78	42.78	45.65	+0.13	4.43
European	6	68.60	68.60	73.30	+0.61	1.10
Equity Income	6	69.53	70.22	75.10	+0.61	5.11
Portfolio	6	58.53	58.53	62.60	+0.36	2.43

Henderson Unit Trust Management Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Pensions Mngd	52.74	53.82	+0.22	3.63

INVESCO MIM Management Ltd
Exempt Funds

	Bid Price	Offer Price	+ or -	Yield Gross
Intl Mngd P'Folio	1239.8	1317.0		
Mngd Pens Ord	68.4	72.9		

Sun Life of Canada Unit Mgrs Ltd (1000)H
Basingstoke, Hants 0800 525725

	Init. Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
American Growth	6	25.87	25.81	27.61	-0.03	0.27
Managed Assets	6	103.90	104.52	111.79	+0.69	4.15
UK Income	6	33.75	34.20	36.69	+0.32	4.76
UK Growth	6	33.26	33.69	36.04	+0.29	3.40
Worldwide Growth	6	24.24	24.24	25.93	+0.15	0.91

Lazard Brothers & Co. Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Property Jan 3	£2540.0	2675.0		6.00
Inc Gth Prp Apr 16	£1325.0	1460.0		7.20

Lazard Investors Ltd ‡‡
Exempt Funds

	Bid Price	Offer Price	+ or -	Yield Gross
Small Co's June 6	£364.9	384.7		4.57
European June 6	£560.9	556.2		2.17
American June 6	£359.1	360.9		1.99
Far Eastern June 6	£562.3	572.7		1.14
Australian June 6	£137.6	142.0		3.46
Sterling May 13	£43.6	45.6		3.28
Northumbria May 22	£140.1	148.4		2.98
North West May 22	£214.1	230.3		3.77
East Coast May 15	£22.1	23.0		3.94
W Midlands Apr 30	£148.70	163.5		1.93

Sun Life Trust Mngmt Ltd (1200)H
101, Cannon St, London EC4N 5AD
Admin & Enq: 071-606 4044 Dealing: 071-606 6010

	Init. Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Master Portfolio	5½	35.40	35.40	37.86	+0.19	1.87
Amer Growth Acc	5½	45.66	45.66	48.79	+0.03	0.07
Cap Protector Acc	5½	34.06	34.06	36.43	+0.16	4.66
Cap Protector Inc	5½	30.59	30.59	32.72	+0.13	4.66
Euro Growth Acc	5½	61.37	61.37	65.64	+0.30	0.66
Far East Gwth Acc	5½	78.55	78.55	84.01	+0.78	1.05
Japan Growth Acc	5½	97.72	97.72	104.18	+0.80	0.00
UK Growth Acc	5½	54.74	54.74	58.55	+0.26	3.01
UK Income Acc	5½	59.22	59.22	63.34	+0.42	4.47
UK Income Inc	5½	46.91	46.91	50.17	+0.32	4.47
Mngd Euro Income	5½	25.43	25.67	27.45	+0.09	6.46
Mngd Euro Income Acc	5½	26.09	26.11	27.92	+0.09	6.46

Local Authorities Mutual Invest. Tst.*
2 Fore Street, London EC2Y 5AQ 071-588 1815

	Bid Price	Offer Price	+ or -	Yield Gross
Property May 31	197.70	201.75		7.20
Equity May 31	863.80	875.90	+32.25	4.23

* Available only to Local Authorities

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

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N & P Life Assurance Ltd

6-7 Bedford Row, London, WC1R 4UJ 071-430 2348

	Bid Price	Offer Price	+ or -	Yield Gross
Life Managed Fd	106.2	111.8	+0.2	-
Pension Managed Fd	104.0	109.5	+0.7	-
Life Deposit Fd	107.3	112.9	—	-
Pension Deposit Fd	112.5	118.4	.....	-

National Financial Management Corp PLC

72 Gatehouse Rd, Aylesbury, HP19 3XJ 0296 395539

	Bid Price	Offer Price	+ or -	Yield Gross
Life Funds				
Managed Cautionary	109.5	120.5	+0.3	-
Managed Growth	137.3	151.2	+0.3	-
Managed Opportunity	139.8	154.1	-0.1	-
NFMC Target Financial	100.2	107.9	+0.5	-
Pension Funds				
Managed Cautionary	119.7	131.3	+0.4	-
Managed Growth	145.3	159.9	+0.3	-
Managed Opportunity	139.9	154.2	-0.1	-
NFMC Target Mngd Pen	1520.2	1652.4	+6.3	-

National Mutual Life

The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422

	Bid Price	Offer Price	+ or -	Yield Gross
Harvester Pension Funds				
Managed	161.3	169.8	-	-

OFFSHORE INSURANCES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

MANAGEMENT SERVICES

FT MANAGED FUNDS SERVICE

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	Bid Price	Offer Price	+ or -	Yield Gross
U.S. Treasury Securities Fund Ltd				
Short Term Shares	$765.91			
Fixed Income Shares	$[illegible]			
Yamaichi Capital Managmt (Guernsey) Ltd				
Japan Mezza Growth	$10.36		-0.07	-
Yamaichi ISS Fund	$7.64		-0.01	-
Yamaichi CB Plus Fund	$8.15		-0.06	-
YenLine Fund	$10.88			-
Yamaichi OTC Equity Ltd	$9.76		+0.01	-

IRELAND (SIB RECOGNISED)

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
GAM Fund Management Ltd (a)						
29 Kildare Street, Dublin 010 353 1760 650						
GAM Universal US Dlr Acc		S-	110.96			-
GAM Universal US Dlr Inc		S-	110.96			-
GAM Universal DM Acc		DM-	120.38			-
GAM Universal DM Inc		DM-	120.38			-
MI Global Asset Managmt Co Ltd "MI Trusts"						
MI Global Dollar		S-	0.98	1.05		-

IRELAND (REGULATED)(**)

	Bid Price	Offer Price	+ or -	Yield Gross
Bank of Ireland Unit Managers Ltd				
Global Strat.	$9.61	9.89		-
[illegible]	[illegible]	[illegible]		-
Guardian Portfolio				
Equity/America	$11.[illegible]	12.18		-
Equity/Europe	$9.23	9.81		-
Bond/America	$10.37	11.07		-
Bond/Europe	$9.29	9.86		-
Bond/Japan	$9.91	10.51		-
World Inv Trust	$10.56	11.20		-
Opportunity Europe	$10.92	11.58		-

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Hill Samuel Fund Mgrs—Contd.						
International Currency Fund						
Sterling Managed	5½	26.42	26.42	27.96	+0.04	-
US Dollar Managed	5½	$29.52	29.52	31.24		-
Sterling	0	£25.07	25.07	25.07	+0.01	10.96
US Dollar	0	$38.02	38.02	38.02		4.57
Deutschmark	0	DM60.16	60.16	60.16	+0.01	7.62
Japanese Yen	0	Y4,855	4,855	4,855	+1	6.39
Swiss Franc	0	SF46.82	46.82	46.82	+0.01	6.72
Irish Punts	0	IE22.23	22.23	22.23	+0.01	6.46
INVESCO MIM International (Jersey) Ltd						
PO Box 271, St Helier, Jersey 0534 73114						
Jersey Gilt (z)	5¼	[illegible]	0.1682	0.1775	[illegible]	9.31
Lloyds Bank (CI) U/T Mgrs.						
PO Box 195, St Helier, Jersey 0534 27561						
Lloyds Tst. Gilt	2½	9.398	9.397	9.643	[illegible]	11.20
Dealing daily						
Midland Bank Fund Managers (Jersey) Ltd						
PO Box 26, St Helier, Jersey 0534 606000						
Intl Clients Portfolio	[illegible]	1.0940	1.0940	1.0965	[illegible]	1.60
Gilt	3	0.9212	0.9212	0.9499	[illegible]	10.53
For MIM see INVESCO MIM						
Royal Trust Jsy Fd Mngt Ltd (1400)F						
PO Box 428, St Helier, Jersey 0534 76077						
Govt.Secs Fd		[illegible]	54.46	56.88		9.85
TSB Trust Funds (CI)						
PO Box 538, St Helier, Jersey 0534 73494						
TSB Offshore Investment Fund Ltd						
Stg Deposit Class	3	103.56	103.56	106.67	+0.03	11.60
Gilt & Fixed Interest	5	101.32	101.32	104.35	+0.08	11.18
Blue Chip & Gilt Eqty	5	49.34	49.34	52.57	+0.31	5.52
International Bond	5	105.91	105.91	111.19	[illegible]	7.52
UK Equity	5	108.61	108.61	118.50	-0.41	1.62
International Equity	5	110.13	110.13	117.40	+0.53	0.43
Far Eastern	5	99.74	99.74	106.91	+0.35	0.00
European	5	89.53	89.53	94.69	+0.80	1.42
Pan American	5	119.31	119.31	126.50	-0.17	0.79
TSB Gilt Fund Ltd						
Quarterly Share	3	96.72	96.72	99.77	+0.15	10.72
Monthly Share	3	94.67	94.67	97.64	+0.15	10.96

JERSEY (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

SWITZERLAND (SIB RECOGNISED)

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

MANAGED FUNDS NOTES

[illegible]

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Recovery hopes lift US dollar

THE US DOLLAR moved cautiously higher yesterday on the belief that the American economy will soon stage a recovery and helped the markets overcome fears of intervention by central banks. For much of the session the dollar traded in a narrow range, but later in the day it began to edge upwards and closed in London slightly higher on the day.

The US currency was lifted after President George Bush said he believed that a recovery was beginning. "If I can borrow a term from Wall Street, I am bullish on the economy; not overly optimistic...but while some sectors are still sluggish, on the whole a turnaround appears to be in the making."

His remarks encouraged the dollar to post a late rally as dealers anticipated positive economic data later in the week. May producer prices are released tomorrow, and the market is waiting to see whether inflationary pressures have been contained.

The most important figures of the week come on Friday when industrial production and capacity utilisation data are released. These will be closely studied to see whether President Bush's hopes for an economic recovery are justified.

However, any rally is likely to be tempered by the knowledge that the central banks are poised to intervene if the dollar shows signs of moving strongly ahead.

The dollar closed higher yesterday at DM1.7725 from DM1.7700; at SFr1.5135 from SFr1.5120; at FFr6.0150 from FFr5.9925. The dollar's index closed down 0.1 point at 67.6.

Concern that the Japanese economy may not be slowing down as quickly as feared led to a firming in short-term interest rates and bolstered the yen. The Bank of Japan's quarterly bulletin reported the economy was still strong, a message which was backed by Mr Ryutaro Hashimoto, the Finance Minister. The dollar slipped back to Y141.10 from Y141.90; sterling fell to Y234.50 from Y236.95; and the Deutschemark dropped to Y79.55-65 from Y80.15-20.

Speculation that the Bundesbank may respond to the rise in the dollar by tightening monetary policy at its council meeting tomorrow boosted the D-Mark. However, most analysts believe the Bundesbank will leave rates unchanged and opt instead for intervention in the currency markets to slow the dollar's advance.

Furthermore, the D-Mark's recent strength against European currencies lessens the need for any immediate change to German monetary policy.

Sterling fell back on speculation about an early cut in interest rates. But the signal from the Bank of England to the money markets that it does want an immediate reduction in rates lifted sterling.

The pound closed lower at DM2.9450 from DM2.9550; at $1.6620 from $1.6700; at SFr2.5150 from SFr2.5350; and at FFr9.9975 from FFr10.0075. Sterling's index finished down 0.2 at 90.6.

£ IN NEW YORK

June 11	Latest	Previous Close
£ Spot	1.6620-1.6630	1.6705-1.6715
1 month	0.77-0.75pm	0.73-0.72pm
3 months	2.02-1.98pm	2.00-1.97pm
12 months	5.80-5.70pm	5.67-5.57pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

[illegible]

CURRENCY MOVEMENTS

[illegible]

CURRENCY RATES

[illegible]

OTHER CURRENCIES

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Jun 11	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Spanish Peseta	133.631	127.258	-4.77	6.16	83
Italian Lira	1538.24	1528.37	-0.64	1.75	39
Belgian Franc	42.4032	42.3073	-0.23	1.33	18
Dutch Guilder	2.31643	2.31676	0.01	1.08	7
D-Mark	2.05586	2.05636	0.02	1.07	8
Irish Punt	0.767417	0.768525	0.14	0.95	0
Sterling	0.696904	0.698306	0.20	0.90	-5
Danish Krone	7.84195	7.91293	0.91	0.19	-34
French Franc	6.89509	6.97083	1.10	0.00	-52

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. Adjustment calculated by Financial Times.

POUND SPOT - FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

EXCHANGE CROSS RATES

[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS · LIFFE US TREASURY BOND FUTURES OPTIONS · LIFFE BUND FUTURES OPTIONS · LIFFE EURODOLLAR OPTIONS · LIFFE SHORT STERLING OPTIONS

[illegible]

LONDON (LIFFE)

[illegible]

CHICAGO

[illegible]

BASE LENDING RATES

[illegible]

● Members of British Merchant Banking & Securities Houses Association.

MONEY MARKETS

Rate hopes dashed

THE BANK of England was forced for the second time in less than a week to resist pressure yesterday in the money markets for an early cut in interest rates.

Despite a warning in its open market operations last Friday that it did not want an immediate change in rates, pressure has built up this week for a ½ point rate cut to 11 per cent.

The speculation had begun to undermine sterling and weaken its standing in the Exchange Rate Mechanism. The Bank's response was to tell the markets it would only meet their liquidity needs by lending at 11⅝ per cent for the next nine days.

The Bank's signal had an immediate effect on short-term rates. The key three-month inter-bank rate moved back up to 11¼ per cent from an early low of 11⅛ and a previous close of 11$\frac{3}{16}$. But with money rates still below 11½ per cent, the market is indicating that a cut has merely been delayed, possibly until the end of next week.

Interest rate futures also suffered setbacks but shared the cash market's belief that rates could still be cut by ½ point by the end of the month. June short sterling closed 10 points lower at 88.81, indicating an interest rate of 11.2 per cent.

The futures market is also still anticipating further cuts in rates later in the year. The September short sterling contract was yesterday implying rates of 10½ per cent by the autumn.

The market's £850m liquidity need was met in full by the Bank, which bought £300m of Treasury bills and £530m lent for 9 days at 11⅝ per cent.

The Bank's lending to the discount houses is likely to leave the market short for the rest of this week, money dealers said.

In Frankfurt call money rates were unchanged at 8.75-8.85 per cent although there were signs of upward pressures creeping into the market as June tax payments beging to drain liquidity.

Help for the market is likely to come from the Bundesbank's regular securities repurchase tender today. Yesterday the Bundesbank set a 28-day repo pact at variable bid rates to replace an existing DM22.1bn agreement.

In New York the Federal Reserve added more liquidity than expected to the US money markets by way of $2.5bn of customer repurchase agreements in order to dampen upward rate pressure.

UK clearing bank base lending rate 11.5 per cent from May 24, 1991

FT LONDON INTERBANK FIXING

[illegible]

MONEY RATES

[illegible]

LONDON MONEY RATES

[illegible]

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

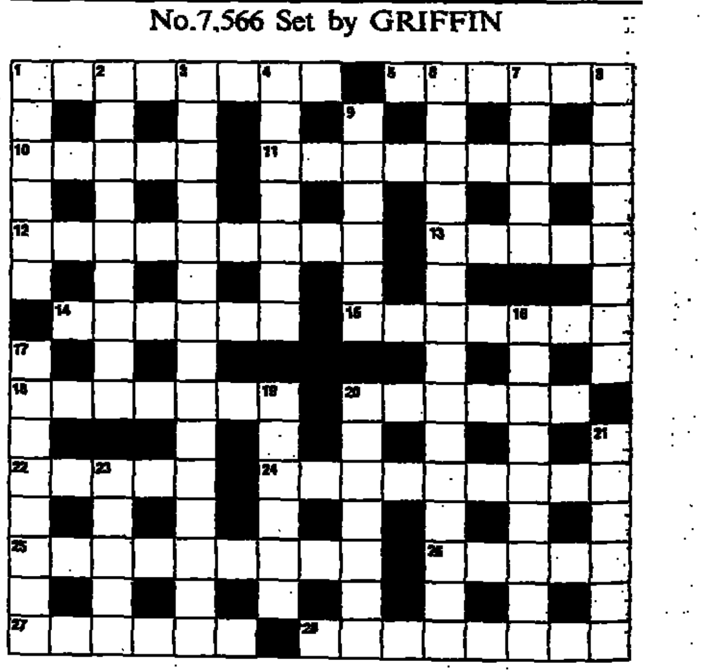
Money Market Bank Accounts

[illegible]

JOTTER PAD

CROSSWORD

No.7,566 Set by GRIFFIN



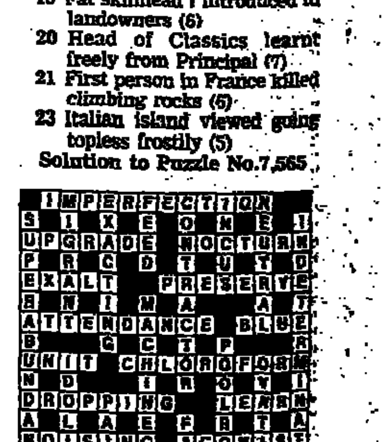
ACROSS

1 Certainly British Telecom accepted owing money (8)
5 Fuss the Socialist loved (6)
10 Encounter, when batting, a surly fellow (5)
11 Greedy air a US cop could reveal (9)
12 One warlike pit leader admitted being fair (9)
13 Alloy tin-opener stuck in food (5)
14 Face smacker? (6)
15 Prominent foreigner seen in street (7)
18 Monitor caught student outside, drunk or not! (7)
20 Join firm taught by the French (6)
22 Excuse to bail out Irish leader? (5)
24 Lack of knowledge of region can spread (9)
25 The Duke and Her Majesty flirt! (9)
26 Knows, when speaking, one's into sound (5)
27 Lines father's written about nymphs (6)
28 Write dramas about where toddlers play safely (8)

DOWN

1 Iris goes red because of this (6)
2 Not cross except I'd no form about fraud (9)
3 Bad bra restrains movement of singer (6,9)
4 A noble sovereign embraces one sooner (7)
6 When this was introduced in 1971 we got the point! (7,8)
7 The rest of the layers? (5)
8 Does turn dead miserable (8)
9 Fruit drinks, about 2p (5)
16 Say six-footer in queue is Rose (9)
17 Discarded piano and played violin without (8)
19 Fat skinhead I introduced to landowners (6)
20 Head of Classics learnt freely from Principal (7)
21 First person in France killed climbing rocks (5)
23 Italian island viewed going topless frostily (5)

Solution to Puzzle No.7,565



WORLD STOCK MARKETS

CANADA

TORONTO

3:00 pm prices June 11

Quotations in cents unless marked $

MONTREAL

3:00 pm prices June 11

Total Sales 9,991,700 shares

INDICES

NEW YORK

DOW JONES	June 10	June 7	June 6	June 5	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2975.40	2976.74	2994.86	3005.37	3035.33 (3/6)	2470.30 (9/1)	3035.33 (3/6/91)	41.22 (2/7/32)
Home Bonds	94.25	94.34	94.65	94.67	95.09 (30/5)	91.30 (16/1)	95.51 (9/2/87)	54.99 (1/10/81)
Transport	1223.91	1227.43	1238.01	1244.53	1241.89 (3/6)	894.30 (7/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	208.75	209.26	210.39	210.70	220.89 (16/4)	199.64 (16/1)	236.23 (2/1/90)	10.50 (8/4/32)

♦Day's High 2992.84 (3005.14) Low 2958.41 (2954.61)

STANDARD AND POOR'S	June 10	June 7	June 6	June 5	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	378.57	379.44	383.63	385.09	390.45 (17/4)	311.49 (9/1)	390.45 (17/4/91)	4.40 (1/6/32)
Industrials	450.69	451.79	456.95	458.92	463.23 (18/4)	364.90 (9/1)	463.23 (18/4/91)	3.62 (21/6/32)
Financial	30.64	30.84	31.25	31.27	31.58 (18/4)	21.96 (9/1)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	207.74	208.19	210.24	210.88	213.21 (17/4)	170.97 (9/1)	213.21 (17/4/91)	4.46 (25/4/42)
Amex Mkt. Value	369.77	369.98	371.43	372.27	373.40 (18/4)	296.72 (14/1)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	495.85	498.54	502.94	505.20	511.31 (17/4)	355.75 (14/1)	511.31 (17/4/91)	54.87 (31/10/72)

	June 7	May 31	May 10	year ago (approx.)
Dow Industrial Div. Yield	3.05	2.99	3.14	3.71
	June 5	May 29	May 22	year ago (approx.)
S & P Industrial div. yield	2.73	2.74	2.79	2.89
S & P Indl. P/E ratio	19.34	19.24	18.89	16.75

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day
Oxy Pete	2,030,700	22⅝	+ 1⅛
Pepsico	1,965,600	30¼xd	- ⅞
RJ Nabisco	1,653,500	10⅞	...
Phillip Morris	1,632,500	65⅛	- ¼
Homestake	1,459,300	16⅝	+ ⅜
John & John	1,381,800	86½	- ¼
Am Express	1,345,100	24	- ⅜
Pac G & E Co	1,252,900	25xd	- ⅜
Telefonos	1,222,800	27⅝	- ¼
MFS Intertnd	1,125,300	8⅛	...

TRADING ACTIVITY

† Volume (Millions)	June 10	June 7	June 6
New York	127.423	167.826	168.260
Amex	9.786	13.038	12.380
NASDAQ	113.815	145.817	161.529
Issues Traded	2,042	2,050	2,036
Rises	647	450	683
Falls	912	1,118	868
Unchanged	483	482	485
New Highs	33	50	69
New Lows	13	9	3

CANADA

TORONTO	Jun 10	Jun 7	Jun 6	Jun 5	1991 HIGH	1991 LOW
Metals & Minerals	3172.59	3209.40	3234.16	3217.93	3284.18 (5/3)	2632.06 (9/1)
Composite	3569.28	3582.07	3576.87	3556.27	3582.07 (7/6)	3161.95 (15/1)
MONTREAL Portfolio	1894.17	1903.86	1898.82	1884.08	1903.86 (7/6)	1686.89 (9/1)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	June 11	June 10	June 7	June 6	1991 HIGH	1991 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1486.0	(c)	1478.0	1495.3	1558.3 (29/4)	1204.5 (16/1)
All Mining (1/1/80)	645.8	(c)	629.4	629.1	680.1 (29/4)	561.6 (16/1)
AUSTRIA						
Credit Aktien (30/12/84)	519.80	519.35	522.15	524.04	534.81 (16/4)	390.84 (15/1)
BELGIUM						
BEL20 (1/1/91)	1181.28	1178.83	1184.31	1186.58	1212.15 (17/4)	917.59 (17/1)
DENMARK						
Copenhagen SE (3/1/83)	(u)	360.61	359.19	356.33	360.61 (10/6)	302.26 (8/1)
FINLAND						
HEX General (28/12/90)	1065.8	1066.4	1070.6	1071.7	1186.9 (8/4)	890.5 (23/1)
FRANCE						
CAC General (31/12/82)	491.27	489.91	493.16	491.67	493.78 (9/4)	394.88 (15/1)
CAC 40 (31/12/87)	1874.81	1846.25	1852.51	1863.92	1874.81 (11/6)	1425.26 (15/1)
GERMANY						
FAZ Aktien (31/12/58)	716.55	711.26	714.65	715.14	716.55 (11/6)	570.48 (15/1)
Commerzbank (1/12/53)	2031.9	2014.0	2025.8	2032.0	2035.2 (31/5)	1612.5 (15/1)
DAX (30/12/87)	1715.80	1704.92	1709.64	1704.17	1715.80 (11/6)	1311.82 (16/1)
HONG KONG						
Hang Seng Bank (31/7/64)	3631.48	3621.19	3637.77	3678.19	3917.09 (20/5)	2984.01 (16/1)
IRELAND						
ISEQ Overall (4/1/88)	1415.92	1422.13	1428.41	1426.99	1528.65 (15/3)	1114.86 (25/1)
ITALY						
Banca Com. Ital. (1972)	605.08	(u)	607.14	608.59	619.38 (3/6)	486.26 (29/1)
JAPAN						
Nikkei (16/5/49)	24662.59	24598.38	25035.11	24984.12	27146.91 (18/3)	22442.70 (16/1)
Tokyo SE (Topix) (4/1/68)	1899.71	1896.21	1922.49	1922.94	2028.85 (18/3)	1625.00 (17/1)
2nd Section (4/1/68)	3273.63	3253.34	3267.01	3239.21	3423.45 (10/5)	2473.52 (24/1)
MALAYSIA						
KLSE Composite (4/4/86)	621.71	618.54	620.48	623.73	635.02 (29/5)	470.41 (16/1)
NETHERLANDS						
CBS Tll.Rtn.Gen.(End 1983)	283.0	281.3	281.7	282.5	284.8 (5/6)	221.4 (16/1)
CBS All Shr (End 1983)	201.8	200.6	200.9	201.5	203.1 (5/6)	162.3 (16/1)
NORWAY						
Oslo SE Ind (2/1/83)	769.90	775.36	783.07	789.46	792.13 (4/6)	610.45 (21/1)
PHILIPPINES						
Manila Comp (2/1/85)	1150.68	1146.54	1157.52	1142.82	1183.40 (29/5)	582.64 (10/1)
SINGAPORE						
SES All-Singapore (2/4/75)	414.86	413.13	418.66	420.02	422.43 (26/4)	315.07 (16/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1416.04	1416.0	1353.0	1304.0	1416.0 (10/6)	971.0 (25/2)
JSE Industrial (28/9/78)	3682.04	3684.0	3682.0	3670.0	3684.0 (10/6)	2829.0 (16/1)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	607.85	606.55	604.87	(c)	697.62 (4/1)	604.87 (7/6)
SPAIN						
Madrid SE (30/12/85)	286.63	285.85	284.82	287.50	289.22 (18/3)	213.70 (14/1)
SWEDEN						
Affarsvariden Gen. (1/2/37)	1125.2	1128.1	1131.5	1133.5	1133.8 (3/6)	888.4 (8/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	759.9	757.7	761.7	761.5	766.1 (31/5)	598.4 (14/1)
SBC General (1/4/87)	631.7	630.3	633.3	633.5	638.0 (31/5)	487.1 (14/1)
TAIWAN**						
Weighted Price (30/6/66)	5851.16	5852.63	5805.56	5695.71	6305.22 (9/5)	3316.26 (16/1)
THAILAND						
Bangkok SET (30/4/75)	813.41	821.60	820.70	824.17	908.13 (19/4)	582.48 (16/1)
WORLD						
M.S. Capital Intl.(1/1/70) ($)	501.3*	499.0	503.6	508.3	529.2 (17/4)	439.1 (16/1)

**Saturday June 8: Taiwan Weighted Price: 5914.21 Korea Comp Ex. 605.60.

‡ Subject to official recalculation. *Calculated at 15.00 GMT.

Base values of all indices are 100 except: BEL20, HEX General, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 26 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u)

TOKYO - Most Active Stocks

Tuesday 11 June 1991

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	6.9m	428	-3	Nisshin Steel	2.5m	688	-7
Hitachi Zosen	5.6m	645	-8	Mitsui Ship'bld	2.6m	596	-5
Japan St. Wks.	3.5m	816	+1	Marubeni	2.3m	603	-13
M'bishi G & Ch	2.6m	849	+29	Kawasaki Steel	2.2m	419	+5
Kurabo Inds	2.6m	970	-30	Chiyoda	2.2m	2,780	+40

Price data supplied by Telekurs.

3:15 pm prices June 11

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1991 High	1991 Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15⅝	9¼	AAR Corp	0.48	0.03	13	609	15	14¾	14⅞	+⅛
16⅞	14½	A L Labs A x	0.16	0.01	18	38	16½	16⅜	16⅜	
55½	40⅞	AMP Inc	1.44	0.03	20	369	54⅛	53¾	54	+½
68⅝	44¼	AMR			20	3533	67	66	66⅞	+½
2⅝	1¼	ARX			1	57	1⅝	1⅝	1⅝	-⅛
51⅛	41½	ASA	3.50	0.07	14	689	50¼	49⅝	50⅛	-⅛
64	39¼	Abbott Lab	1.00	0.02	21	6396	50⅛	49⅝	50⅛	+1
14½	9⅞	Abitibi Pr	0.50	0.04	27	6	14¾	14⅜	14⅛	
11⅝	10⅜	ACM Gvt In x	1.26	0.11		606	11⅜	11¼	11⅜	+⅛
9⅞	8⅝	ACM GvOpp x	1.01	0.11		79	9⅝	9¼	9⅜	
9¾	8¼	ACM Gvt Sp x	1.01	0.11		980	9⅜	9	9⅜	+⅛
11	9⅞	ACM Gvt Se	1.26	0.12		484	u11	10⅞	10⅞	-⅛
8⅝	7⅝	ACM Man x	1.01	0.12		182	8¼	8⅛	8⅛	+⅛
12⅞	11⅞	ACM Mangd x	1.37	0.11		152	12¼	12⅛	12¼	+⅛
7½	4¾	Acme Cleve	0.40	0.05	17	305	7⅛	7⅛	7¼	+⅛
6	3½	Acme Elect			48	8	4⅞	4⅞	4⅞	
40	22¾	Acuson			24	670	32⅞	31¾	32⅞	+½
18½	14¼	Adams Expr	0.73	0.04	0	160	18⅛	17¾	17⅞	-⅛
20⅛	16⅞	Adobe12P1	2.40	0.12		12	19⅞	19⅝	19⅝	
9⅛	7	Adobe Res			23	5	7⅞	7⅞	7⅞	
38⅞	18	Ad Micro				206	37⅞	37⅛	37¾	+⅛
14¼	4⅝	Ad Micro P	3.00	0.22		150666	13⅞	13⅛	13⅛	+⅛
6⅛	2¼	Advest Grp	0.16	0.04	6	32	4½	4¼	4½	+⅛
49½	33⅞	Aetna Lf	2.76	0.07	7	1413	41⅝	41	41¼	+⅛
10⅝	6⅝	AflI A	0.24	0.03	36	224	9⅛	8⅞	9	-⅛

NYSE COMPOSITE PRICES

Continued from previous page

1991 High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
80¼	35¼	Xerox x	3.00	0.05		91487	54½	53¼	53¾	+1⅜
61	43¼	Xerox4.125 x				30	48½	47½	48½	
21¼	14¼	Xtra 1.94				z100	20¾	20¾	20¾	
24⅞	14¼	Xtra Corp	0.72	0.03	281	65	23½	23⅛	23⅛	−¼
24¼	21¾	Yankee Egy x	1.60	0.07	12	92	22⅞	22⅝	22¾	
1½	⅞	Zapata			0	139	1	1⅟₁₆	1⅟₁₆	
9⅝	6⅛	ZenithElec			2	132	7⅝	7½	7½	
18½	12	Zenith Nat	1.00	0.06	72	191	17⅝	17½	17½	−⅛
6⅛	4½	Zenix Inc	0.98	0.16		5	6	6	6	
15⅛	10⅞	Zero Corp	0.40	0.03	15	280	13⅞	13¼	13⅞	+⅛
41⅞	29½	Zurn Ind x	0.86	0.02	14	186	35½	35	35⅛	+¼
13½	10¼	Zweig Fund	1.12	0.09		301	12⅝	12½	12½	
10	8½	Zweig Totl x	0.86	0.10		385	u10	9¾	10	+⅛

Price data supplied by Telekurs.

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3:00 pm prices June 11

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Pall Corp	0.44	27	1795	36½	36	36⅛	+⅛
Pegasus G		8	518	13⅛	12¾	12⅞	−⅝
Perini		9	121	13⅞	13⅛	13⅝	+⅝
Pet HMP	0.31	12	2	10⅝	10⅝	10½	
Cal Engy		27	134	12	11⅞	12	
Chiles		17	575	6⅛	5⅞	6⅛	+⅛
Hasbro	0.24	18	1576	29⅞	29	29⅛	+⅛
OEA Corp	0.10	11	77	7	6⅝	6⅞	−⅛
Xytronix		31	29	19	18⅝	18⅝	−⅛

NASDAQ NATIONAL MARKET

3:15 pm prices June 11

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		32	348	22¾	22	22½	
XL Data		14	30	7	6¾	6⅞	−⅛
Xoma Corp		14	22698	31¼	26½	27	+¾
Yellow Fr	0.94	15	1077	32½	32¼	32⅜	+¼
York Rsch		18	207	20¼	19½	19¾	−½
ZionsUtah	1.44	9	61	42¼	41½	42¼	+¼

FINANCIAL TIMES

Wednesday June 12 1991

AMERICA

Dow rebounds after five days on downtrend

Wall Street

AFTER five consecutive days of declines, share prices bounced back yesterday morning as investors returned to the market in search of bargain buys, *writes Patrick Harverson in New York.*

By 1 pm the Dow Jones Industrial Average was up 14.98 at 2,990.38. The other major indices were also notably firmer, with the broader-based Standard & Poor's 500 up 2.29 at 380.86 at 1 pm, and the Nasdaq composite of over-the-counter stocks up 1.78 at 497.63. Turnover on the New York SE was 101m shares at 1 pm. Risers outpaced decliners by 793 to 584.

Dealers said there were no specific reasons for the rise in share prices. Investors who have stayed away from the market for most of this month because of lower bond prices and fears that the market was overbought, may have decided the time was right to buy equities again. They may have also bought stocks yesterday in anticipation of good economic news later this week, with inflation, retail sales and production data due out tomorrow and Friday.

One of the features of the day was Apple Computer, which dropped $1⅞ to $44⅞ in turnover in excess of 1m shares. The stock went against the trend because of a downgrading from Montgomery Securities. The broker lowered its 1992 earnings estimate and its rating on the stock, citing concern about an inventory build-up, the effects of unfavourable exchange rate movements on income, and fears that business may not recover for another two quarters.

Other secondary computer stocks fared much better, with Microsoft rising $1⅞ to $112½ and Intel putting on $⅞ at $51⅞. Microsoft was helped by the news that the company has introduced *MS-DOS* 5, an updated version of its operating system software for personal computers.

Xoma, the drugs group, recovered strongly from Monday's sharp decline, rising $¾ to $27⅞ on turnover of 1.8m shares. The stock had been sold on Monday because of fears about the outcome of a Food and Drug Administration (FDA) advisory committee review of its XomaZyme CD5 Plus drug. The FDA committee, however, eventually gave a favourable recommendation to the product, used in the treatment of diseases related to bone marrow transplants.

On the Big Board, Procter & Gamble rose $1⅛ to $83⅞ amid reports that the group may be considering selling its food and beverage businesses. The news that Live Entertainment is considering a link-up with its majority owner, Carolco Pictures, continued to boost the video distributor, whose shares rose another $⅞ to $12⅞. Carolco moved the other way, slipping $⅛ to $7⅛.

Tosco, the petroleum refiner and producer, fell $1⅛ to $22 after an analyst at Shearson Lehman cut his second and third quarter 1991 earnings estimates. The analyst said he was concerned with the weakening of wholesale petrol prices on the West coast and its impact on Tosco's income.

Canada

TORONTO was mixed at mid-day as cash calls mounted. The composite index rose 2.6 to 3,471.9 in volume of 13.7m shares. The Royal Bank of Canada rose C$⅛ to C$25⅞ after news that it will issue C$300m of non-cumulative first preferred shares and C$250m of fixed rate debentures. The forest products manufacturer, MacMillan Bloedel, eased C$1 to C$21⅞ after it said it will issue 7.2m common shares at C$21 to raise C$151.2m.

SOUTH AFRICA

GOLD shares gave up early gains to profit-taking as bullion prices stabilised. The all-gold index rose to 1,440 before ending steady at 1,416 while the industrial index fell 2 to 3,682. The all-share index rose 12 to 3,261.

Change in rules propels Brazil back into top slot

Victoria Griffith on foreign investors' likely impact

BRAZIL's new rules allowing direct purchases by foreign institutional investors came into effect on Monday. The market took the move in its stride this week, rising 0.5 per cent on Monday and easing 0.1 per cent by mid-session yesterday.

The prospect of foreign capital flowing into Brazilian equity markets has animated the country's indices since the Comissão de Valores Mobiliares (CVM), Brazil's stock market watchdog, announced its intention to loosen restrictions on foreign investment three months ago.

The new rules had their greatest impact in May, as the entry of foreigners became an increasing likelihood. With the market expecting between $100m and $500m in outside capital to enter the country during the next 12 months, investors marked up prices 41.7 per cent in dollar terms last month, according to the International Finance Corporation, part of the World Bank. Last month Brazil extended its rise this year to 142 per cent, regaining from Argentina its position as the best performing market in the world.

The new regulations received official approval two weeks ago, along with other rules designed to bring in outside capital. Since Monday, foreigners have been allowed to hold on to Brazilian equity for only 24 hours, compared with a minimum of 90 days under previous regulations. Foreigners are now also exempt from capital gains tax.

"The new rules have enhanced our credibility and are a sign that the country is welcoming outside investment," says Mr Alvaro Vidigal, president of Bovespa, the São Paulo stock exchange.

Some traders believe that the reaction has been exaggerated. The impact of the new rules is mostly psychological, according to Mr Roger Wright, head of the foreign investment fund at Banco de Investimentos Garantia. "In a market which can turn over $60m a day, an extra $200m in a year will not make that much difference," he says. "But what the new rules show is that the Brazilian government is now committed to attracting foreign risk capital. And that's a positive sign."

The entry of more foreign capital could lead to greater stability. "Foreigners will enter the market as long-term holders rather than speculators," predicts a Citibank spokesman, "and that should help reduce volatility."

There may not be a sustained increase in volumes. "Once the foreigners are in, they are likely to hold equity for long periods of time," says Mr Vidigal. "Therefore, they will not be much help in boosting volumes."

Economic factors also contributed to the rally in Brazilian equity prices in May. The market responded with enthusiasm to the appointment of Mr Marcilio Marques Moreira as economy minister last month.

He has taken a much softer line with Brazilian business than his predecessor, Ms Zelia Cardoso de Mello. Last week, for instance, Autolatina, the group formed by the merger of Ford and Volkswagen in Brazil, won its defence in an anti-trust case brought against it by the administration's former economics team. Investors see the new conciliatory approach as positive for company profits.

A conviction that the Brazilian depression is weakening has also boosted prices. "I think the index surge was due to positive signs on the economic front as well as the prospect of foreign investors entering the market," says Mr Wright. So far, signs of improvement are largely anecdotal, but the business community anticipates an improvement in economic indicators during the next few months.

With Brazil's privatisation programme finally moving ahead, the equity market is likely to attract substantial interest from abroad during the next few months. "The privatisation process will attract a new kind of foreign investor, such as the international banks," says Mr Vidigal.

"If all goes well, privatisation and improving economic conditions will sustain price gains until the end of the year," he adds.

IFC EMERGING MARKETS PRICE INDICES

Market	No. of stocks	May 31 1991	% Change over 5 weeks (Dollar terms)	% Change on Dec '90 (Dollar terms)	May 31 1991	% Change over 5 weeks (Local currency terms)	% Change on Dec '90 (Local currency terms)
Latin America							
Argentina	(29)	497.21	+3.3	+90.1	27,335,129	+3.6	+232.7
Brazil	(67)	96.95	+41.7	+142.1	8,467,118	+61.7	+328.2
Chile	(35)	1,190.64	+9.3	+46.5	3,144.44	+10.5	+46.7
Colombia	(20)	287.59	+4.3	−0.2	1,580.94	+14.0	+17.9
Mexico	(56)	1,166.48	+16.3	+60.5	18,098.00	+16.5	+68.3
Venezuela	(16)	498.55	−8.1	−1.3	3,601.55	−8.0	+7.5
East Asia							
Korea	(77)	293.62	−3.6	−13.5	257.38	−3.7	−12.3
Philippines	(30)	1,402.78	+9.0	+61.6	1,923.85	+8.8	+61.9
Taiwan, China	(70)	775.06	−4.8	+20.3	528.11	−4.7	+21.5
South Asia							
India	(60)	250.55	+4.9	+5.6	417.19	+7.3	+20.6
Indonesia§	(68)	91.07	−6.8	−6.5	98.57	−5.3	−3.7
Malaysia	(62)	154.35	+5.2	+23.0	175.44	+5.6	+24.9
Thailand	(43)	339.84	−9.5	+16.3	320.48	−9.7	+17.7
Europe/Middle East							
Greece	(32)	471.18	−13.9	−11.0	697.00	−13.7	+6.4
Jordan	(25)	94.40	−3.8	+4.8	170.52	−1.6	+11.4
Portugal†	(30)	450.85	−3.0	−0.2	433.99	−3.2	+9.2
Turkey‡	(25)	105.38	−18.1	−41.9	557.63	−15.3	−20.2

Source: International Finance Corporation. Base date: Dec 31, 1984. §Dec 1989=100. †Jan 1986=100. ‡Dec 1986=100

LATIN AMERICA continued to produce some of the best emerging market gains last month, while European bourses retreated further. After Brazil, Mexico produced the biggest rise, according to the International Finance Corporation, taking its gain in dollar terms over three months to 54 per cent, while Turkey extended its loss over three months to 44 per cent.

EUROPE

Foreign demand helps France climb 1.5% to 1991 high

FOREIGN DEMAND helped France rise sharply in active trading yesterday, while other late-closing bourses were lifted by Wall Street's firm opening, *writes Our Markets Staff.*

PARIS advanced 1.5 per cent to a year's high, on active buying by foreign investors. Domestic investors were more hesitant, because of the high interest rates. The CAC 40 *gained 28.56 to 1,874.81*, passing the previous 1991 high set on June 3, in turnover of FFr2.9bn, well above Monday's FFr1.4bn.

There was a growing belief among foreigners that the bourse would end the year 10-15 per cent higher, the economy would recover and interest rates would fall, said one dealer.

The news that LVMH, the luxury goods group, was buying 23.4m shares in Guinness invigorated the market. The LVMH move is necessary to restore its original holding in the UK company. LVMH gained FFr131 or 3.1 per cent to FFr4,350 in volume of 47,550 shares.

Stocks popular with British and other international investors were strong, including Suez, up FFr10.30 at FFr370.70 on 537,580 shares, and Peugeot, which rose FFr15 to FFr631 on 257,200 shares.

FRANKFURT fell back from early gains of around 3 per cent, but it still registered new 1991 highs. The FAZ index was up 5.29 at 716.55 at midsession and the DAX closed 10.98 higher at 1,715.80. Volume rose from DM5.4bn to DM7bn.

Foreigners continued to favour Siemens, up DM6 at DM670.90, while Daimler rose DM7.50 to DM768.50. However, the automotive pace-setters were Volkswagen, up DM7.20 at DM409, as it reported a rise in deliveries of 6.4 per cent for the first five months, and Continental, the tyremaker, DM5.50 higher at DM195.

Retailers were strong. Karstadt rose DM12 to DM685 as its DVFA earnings more than doubled to DM38.44 for 1990 against outside expectations of DM31 to DM32 early this year and Degab's revision of its estimates to DM34 two weeks ago. Asko rose DM15.50 to DM829 and Horten, in which Westdeutsche Landesbank's acquisition of a majority stake received official approval yesterday, put on DM11 to DM230.

MILAN opened higher in reaction to the overwhelming approval of a referendum on electoral reform. But prices closed lower on technical considerations linked to the expiry of monthly options contracts on Wednesday and the end of the June account on Friday.

The Comit index fell 2.06 to 605.08 in volume estimated at below Friday's L146bn. The bourse was closed on Monday as stockbrokers went on strike to protest against planned reforms. They may strike again next week.

Fiat added L19 at the official close to L6,131, and rose to L6,155 after hours.

BRUSSELS edged higher, with the Bel20 index up 2.45 at 1,181.28. Turnover grew to BFr909m from BFr598m. Groupe AG, the insurer, gained BFr60 or 3.1 per cent to BFr1,985 in active trading before its annual meeting.

Other big price changes occurred in light trading. Glaverbel jumped BFr200 or 5.1 per cent to BFr4,100 and Wagon-Lits gained BFr390 or 5.8 per cent to BFr7,160.

STOCKHOLM fell for the third successive day. The Affärsvärlden General index eased 2.9 to 1,125.2 in thin volume of SKr331m, after the previous day's SKr303m.

Volvo free B shares eased SKr1 to SKr252 after Monday's SKr9 gain. The car company unveiled its new model, the 850 GLT with five cylinders and front wheel drive.

OSLO was depressed by Monday's news that Aker and Nora had swung into loss in the first four months of 1991. The all-share index fell 3.82 to 513.34 in turnover worth NKr270m. Aker lost NKr1.50 to NKr77.50 and Nora fell NKr15 to NKr225.

AMSTERDAM was lifted by a firm Wall Street opening at the close of a listless Dutch session. The CBS tendency index closed 0.5 higher at 95.5.

ISTANBUL rose 3 per cent after Monday's announcement of lower Treasury bill rates. The 75-share index gained 105.82 to 3,650.12.

FT-SE Eurotrack 100 - Jun 11

Hourly changes

Open	10 am	11 am	Noon	1 pm	2 pm	3 pm	Close
1157.17	1158.21	1156.77	1157.43	1157.45	1157.59	1158.36	1159.97

Day's High 1160.60 · Day's Low 1156.49

June 10	June 7	June 6	June 5	June 4
1155.46	1156.31	1160.15	1165.54	1155.63

Base value 1000 (26/10/90)

ASIA PACIFIC

Nikkei rises slightly as volume stays low

Tokyo

SHARES rose marginally on small-lot buying by institutional investors yesterday, but volume stayed low before the June futures expiry, *writes Emiko Terazono in Tokyo.*

The Nikkei average closed 64.21 higher at 24,663.59, after a low of 24,460.30 and a high of 24,721.27. In spite of bargain-hunting for large-capital issues by insurance companies and investment trusts, volume remained low at 220m shares, up from 200m.

Losses led gains by 460 to 442, with 201 issues unchanged. The Topix index of first-section stocks rose 3.50 to 1,899.71 and, in London, the ISE/Nikkei 50 index rose 1.11 to close at 1411.91.

Trading was quiet ahead of the publication of the Tankan, the Bank of Japan's quarterly business report. The survey said that companies were still confident: the number of companies expressing optimism outstripped the number of pessimists by 36 per cent.

The Tokyo Stock Exchange said the balance of margin buying had fallen for the fourth week, moving down by Y27.6bn to Y5,872.2bn, reflecting the lack of activity. Ms Benedicte Ivey at Credit Lyonnais Securities said some investors were unable to unload their margin positions because of the low volume.

Nippon Telegraph and Telephone fell Y13,000 to a year's low of Y865,000. Interest rate-sensitive, large-capital issues weakened: Nippon Steel, the most active stock of the day, fell Y3 to a 1991 low of Y428.

Sumitomo Metal Mining rose Y50 to Y1,290 on rumours of a gold vein discovery in southern Japan. Tokio Marine & Fire Insurance added Y30 to Y1,280 on buying by foreign investors and pension funds.

Calpis Food Industry gained Y90 to Y1,280 on reports that it was buying a Tokyo beverage maker. Rising sales of its canned soft drinks also attracted investors.

Interest focused on highly priced, small-capital stocks with low liquidity. The second section index rose 20.29 to 3,273.63 and the over-the-counter market index gained 43.53 to 3,261.67. Secom, the security service company, gained Y130 to Y6,250, Sony rose Y90 to Y6,050 and TDK added Y10 to Y5,650.

In Osaka, the OSE average fell for the sixth consecutive day, losing 136.86 to 27,440.06. Volume dropped to 18.8m shares from 23.2m. Interest rate-sensitive stocks were depressed by the higher yen and lower bonds. Nintendo, the game maker, rose Y800 to Y13,600, and Dai-Dan, an engineering company, climbed Y150 to a record Y4,810.

Roundup

PACIFIC RIM markets were concerned with domestic issues yesterday.

AUSTRALIA was lifted by golds, the sector index gaining 65.3, or 6 per cent to 1,143.9 on rising bullion prices. Gold *Mines of Kalgoorlie* rose 8 cents to 73 cents and Placer Pacific by 14 cents to A$2.46. The All Ordinaries index added 8.0 to 1,486.0 in turnover of A$187m, down from A$238m.

Bundaberg Sugar jumped 40 cents to A$4 after Mr John Kerin, the new government treasurer, cleared the bid from Tate & Lyle. The UK company is offering A$4.10 a share.

TNT and News Corp were weak after last week's news that their joint venture was exposed to the troubled America West Airlines. TNT lost 6 cents to 82 cents and News Corp fell 16 cents to A$8.44.

HONG KONG was boosted by remarks from Chinese Communist Party leader Jiang Zemin that China would not interfere in Hong Kong's affairs in the run-up to 1997. But the Hang Seng index came off the day's high to close 10.29 better at 3,631.48. Turnover was *thin at HK$880m after* Tuesday's HK$787m.

NEW ZEALAND fell as the details of the Telecom Corp flotation stole investors' attention. The Barclays index fell 12.10 to 1,436.80.

SINGAPORE rebounded on bargain-hunting after a weak *opening. The Straits* Times Industrial index rose 8.69 to 1,538.31 in volume of S$65m, down from S$70m.

TAIWAN ended mixed in thin trading. The weighted index eased 1.47 to 5,851.16 and volume fell to T$36.4bn from T$41.7bn.

BOMBAY reopened after a day's closure to light and hesitant trading, but the BSE index rose 13.33 to 1,261.64.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY JUNE 10 1991 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY JUNE 7 1991 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1991 High	1991 Low	Year ago (approx)
Australia (70)	134.01	+0.2	118.97	120.20	123.32	118.50	+0.0	5.52	133.81	118.69	118.67	123.24	118.50	147.30	112.74	137.64
Austria (20)	198.22	−0.2	175.98	177.80	182.41	182.09	−0.2	1.48	198.71	176.25	176.23	183.01	182.45	222.37	167.00	245.66
Belgium (49)	*130.34*	*−0.5*	*115.71*	*116.90*	*119.94*	*117.00*	*−0.4*	*5.05*	*131.01*	*116.21*	*116.18*	*120.66*	*117.44*	*151.20*	*121.73*	*150.56*
Canada (115)	141.57	−0.4	125.69	126.98	130.27	117.64	−0.4	3.34	142.20	126.13	126.10	130.96	118.11	142.27	126.49	138.61
Denmark (37)	239.67	+0.7	212.77	214.98	220.55	221.58	+0.8	1.52	237.98	211.04	211.01	219.13	219.89	270.56	217.74	253.78
Finland (16)	112.75	−1.1	100.10	101.14	103.76	98.80	−0.9	2.29	114.01	101.12	101.11	105.00	99.74	125.15	90.81	135.90
France (114)	134.33	−0.3	119.25	120.48	123.60	126.27	−0.4	3.49	134.72	119.50	119.47	124.07	126.75	152.26	121.85	156.97
Germany (65)	111.81	−0.5	99.26	100.30	102.89	102.89	−0.6	2.17	112.34	99.65	99.64	103.46	103.46	125.35	102.43	126.83
Hong Kong (55)	150.98	−0.4	134.03	135.42	138.94	149.79	−0.5	5.18	151.62	134.48	134.46	139.64	150.59	161.77	119.62	130.18
Ireland (18)	152.72	−0.5	135.58	136.99	140.54	142.37	−0.4	3.59	153.61	136.16	136.15	141.38	143.01	182.46	132.88	187.31
Italy (77)	79.19	−0.1	70.31	71.03	72.87	77.66	+0.0	2.98	79.25	70.30	70.28	72.99	77.66	88.23	72.05	106.98
Japan (474)	130.23	−2.5	115.61	116.81	119.85	116.81	−1.4	0.72	133.61	118.51	118.49	123.07	118.49	146.97	118.35	149.26
Malaysia (68)	235.54	−1.1	209.10	211.26	216.74	252.04	−0.7	2.58	238.09	211.18	211.14	219.27	253.91	247.78	192.83	232.41
Mexico (15)	*1056.50*	*−1.6*	*937.94*	*947.65*	*972.21*	*3460.95*	*−1.5*	*1.85*	*1073.35*	*952.04*	*951.91*	*988.55*	*3535.30*	*1079.72*	*534.45*	*538.30*
Netherland (31)	136.80	−0.1	121.45	122.71	125.89	124.47	−0.1	4.35	136.94	121.46	121.44	126.12	124.62	145.73	125.70	138.80
New Zealand (13)	49.12	+1.6	43.60	44.06	45.20	44.45	+0.3	7.94	48.33	42.87	42.87	44.52	44.32	54.64	41.18	63.33
Norway (32)	198.81	−1.0	176.50	178.33	182.95	186.12	−1.0	1.58	200.75	178.06	178.04	184.89	187.94	223.24	182.24	234.99
Singapore (38)	200.66	−2.2	178.14	179.99	184.65	164.83	−1.8	2.03	205.12	181.94	181.91	188.91	167.93	208.25	151.63	206.98
South Africa (61)	222.61	+1.7	197.63	199.67	204.84	161.92	+1.4	3.38	218.81	194.06	194.05	201.52	159.70	222.61	179.00	184.03
Spain (55)	156.98	+0.4	139.37	140.81	144.46	130.10	+0.4	4.10	156.36	138.69	138.68	144.01	129.53	171.12	131.51	159.76
Sweden (27)	188.22	−0.4	167.10	168.83	173.21	177.15	−0.4	2.50	189.00	167.64	167.62	174.08	177.88	204.12	146.60	214.26
Switzerland (58)	92.35	−0.1	81.99	82.84	85.00	86.57	−0.5	2.22	92.41	81.97	81.96	85.12	86.97	100.67	82.17	101.51
United Kingdom (239)	167.72	+0.2	148.90	150.43	154.33	148.90	+0.3	4.92	167.44	148.51	148.48	154.20	148.51	187.44	156.27	160.32
USA (525)	153.47	−0.2	136.25	137.67	141.23	153.47	−0.2	3.17	153.73	136.36	136.35	141.60	153.73	158.24	125.95	148.28
Europe (838)	137.06	−0.1	121.68	122.94	126.13	124.08	−0.1	3.83	137.13	121.63	121.62	126.30	124.15	151.52	125.50	145.34
Nordic (112)	182.00	+0.0	161.57	163.25	167.48	163.25	+0.0	1.97	182.05	161.47	161.45	167.67	163.27	200.81	155.55	203.83
Pacific Basin (718)	130.85	−2.3	116.17	117.37	120.41	117.68	−1.3	1.09	133.98	118.84	118.83	123.40	119.27	145.92	117.86	148.10
Euro−Pacific (1556)	133.64	−1.4	118.64	119.86	122.97	121.09	−0.8	2.20	135.57	120.24	120.22	124.85	122.09	147.66	121.29	147.37
North America (640)	152.64	−0.2	135.51	136.93	140.49	151.06	−0.2	3.18	152.93	135.64	135.64	140.87	151.34	157.04	125.91	145.71
Europe Ex. UK (599)	118.29	−0.2	105.02	106.13	108.88	109.53	−0.3	3.06	118.54	105.14	105.15	109.20	109.82	129.80	106.85	134.78
Pacific Ex. Japan (244)	136.68	−0.4	121.34	122.62	125.79	123.74	−0.4	4.75	137.20	121.70	121.70	126.38	124.29	145.66	111.40	133.50
World Ex. US (1747)	135.34	−1.3	120.15	121.40	124.55	122.18	−0.8	2.26	137.16	121.66	121.65	126.33	123.12	148.16	122.32	147.66
World Ex. UK (2033)	137.83	−1.0	122.36	123.63	126.84	130.22	−0.6	2.34	139.25	123.52	123.51	128.27	131.06	145.77	120.06	144.64
World Ex. So. Af. (2211)	139.92	−0.9	124.22	125.52	128.77	131.78	−0.6	2.58	141.25	125.29	125.28	130.10	132.54	148.66	122.92	145.79
World Ex. Japan (1798)	147.19	−0.1	130.67	132.04	135.47	140.21	−0.1	3.48	147.37	130.71	130.71	135.75	140.39	152.83	126.69	145.79
The World Index (2272)	140.44	−0.9	124.68	125.98	129.25	132.03	−0.5	2.60	141.73	125.71	125.70	130.54	132.76	149.01	123.28	146.02

Latest prices were unavailable for this edition. Australian market closed 10/6/91. Italian prices were unavailable 10/6/91.

POWER GENERATION EQUIPMENT

Political changes in eastern Europe offer fresh opportunities and the EC's Single Market reforms may open up existing markets. The industry must deal with even tighter environmental measures and the debate over the future of nuclear power. **Andrew Baxter** reports

Challenges in a buoyant era

THE world's suppliers of power generating equipment have sustained too many shocks over the past 20 years to become fired with over-enthusiasm if prospects improve. But few would deny that the outlook is looking healthier now than at any time in the 1980s.

Participants in the highly cyclical market for turbines, generators, boilers and a wide range of ancillary equipment are benefiting from a fundamental shift in buying patterns among utilities and industrial customers as consumption of electricity in many key markets catches up with installed capacity.

At the same time, a global trend towards more efficient use of fuel and tighter environmental standards is changing the industry's product mix and fuelling interest in retrofitting modern equipment to existing power stations.

On top of that is the intriguing prospect of sales to the former eastern Germany, eastern Europe and the Soviet Union, where the safety of Soviet-designed nuclear power stations has been questioned and the environmental impact of conventional plants burning *brown coal (lignite)* has varied from damaging to devastating.

There are challenges ahead, however. In western Europe, cross-border mergers have strengthened suppliers' worldwide competitiveness, but further rationalisation is still likely in manufacturing capacity for the large steam turbines that have become less relevant to western customers' rapidly-changing needs.

The European Community's Single Market reforms promise to open up protected national markets as competition is introduced to the public procurement process, but US suppliers, led by General Electric, complain that they are being excluded – and are demanding a "level-playing field."

UK suppliers, meanwhile, complain that the government's relative parsimony in funding "aid for trade" is hampering their competitiveness in some promising Third World markets. Some await hard evidence that they will be allowed to compete fairly in the reunified Germany.

Another important development is the *changing nature of* customers in the power supply industry, illustrated most graphically by privatisation in the UK. *For equipment suppliers*, this injects equal measures of opportunity and uncertainty into their planning as the restructured utilities reassess their traditional buying strategies and shop around for cheaper, more efficient and *quicker-to-build plant*.

Then there is the biggest uncertainty of all – the future of nuclear power worldwide. Big equipment suppliers such as GE, Asea Brown Boveri and Siemens are continuing to invest in new techniques so that they are ready for any upturn in western markets at the end of the decade or early next century. But the fate of this investment is largely out of their hands.

Despite these challenges it looks as if the normal pattern in this long lead time industry – of trailing recessions elsewhere in manufacturing – could be broken in the 1990s.

"It could be that two years from now, when the economies of the world think they are out of a recession, this business will have a low point. But we are not forecasting that: we see the growth requirements being strong enough and consistent enough... we see steady growth over the next decade," says Mr David Genever-Watling, senior vice-president at GE Industrial and Power Systems, the world's biggest gas turbine producer.

There is certainly plenty of room for growth. Buffeted by the after-effects of the second oil price shock, the industry hit rock bottom in 1985. The world market has recovered steadily over the past two or three years but is still around half the level of its historical peak in 1974.

GE's forecasts for the 1990s imply growth in the US market for new capacity of 2.4 per cent a year, unexciting but still a dramatic turnround from the first half of the 1980s when the market fell to a tenth of its former size.

In contrast, GE expects the Far East market, and particularly Japan, Korea and Taiwan, to grow at 5-7 per cent a year during the 1990s if power *supply is to keep pace* with fast-growing economies. Mr Robert McCoy of UBS Securities in New York estimates that the *Far East's share of the world* gas turbine market rose from 6 per cent in 1980 to 26 per cent last year.

According to UBS, GE and its associates had 35 per cent of this market last year, followed by Mitsubishi Heavy Industries/Westinghouse Electric/FiatAvio with 21 per cent. In third place was ABB and its joint venture with the UK's Northern Engineering Industries (17 per cent), followed by GEC Alsthom's European Gas Turbine Company (10 per cent) and Siemens' KWU with 9 per cent.

Although there are 26 companies competing in the world gas turbine market, the principal suppliers of the technology can be counted on one hand, and ownership of – or access to – the leading edge of gas turbine technology has never been more important.

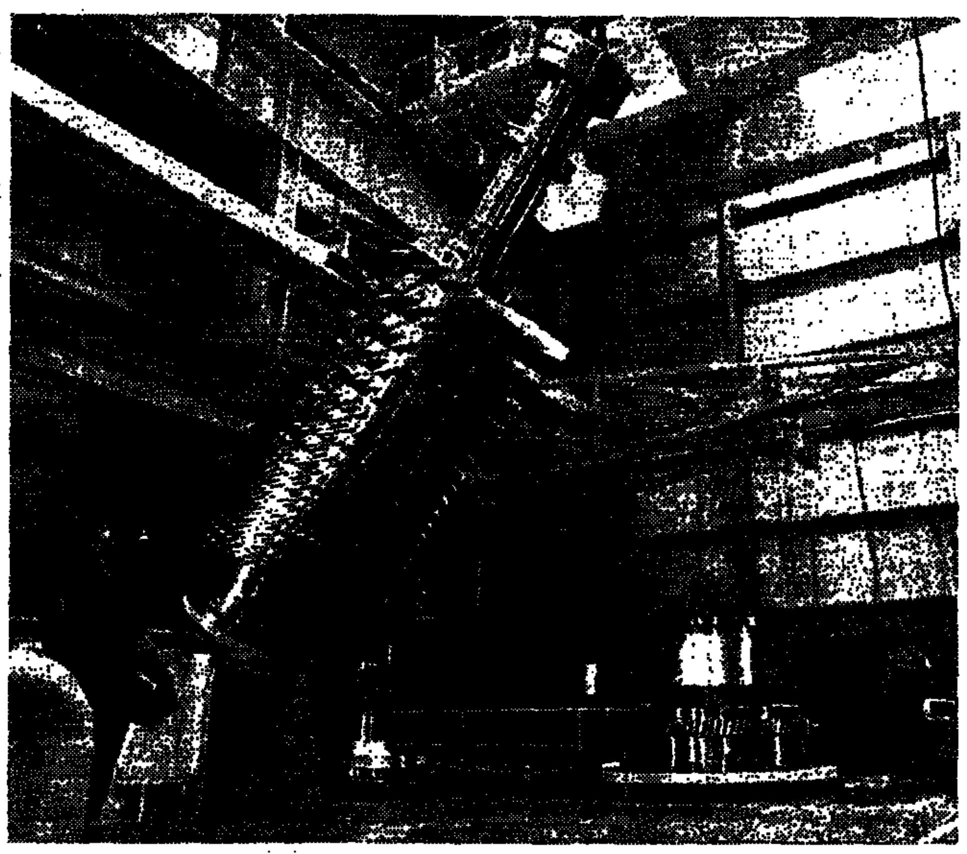
Natural gas was long considered too valuable a fuel for use *in power generation but now* large, reliable gas turbines have been developed which can be linked to steam turbines to produce "combined cycle" power generation – cleaner and more efficient than conventional "open cycle" coal-fired steam turbine generation.

GE is the technology leader in gas turbines, even if European rivals such as ABB claim to have the edge elsewhere. The US company's global reach has protected it from the recent dearth of orders at home. A further advantage has been its ability to feed off the turbine research of its sister GE aero-engine company.

In Europe, interest has focused on progress made by Swiss-Swedish ABB and Anglo-French GEC Alsthom since they were formed in 1988 and 1989. *Mr Göran Lundberg*, head of ABB's power generation business, highlights the $1.6bn acquisition in 1989 of *Combustion Engineering*, the US boiler group, enabling ABB to offer a total retrofit package and enhancing its effectiveness in export markets. CE, however, has required streamlining and rationalisation.

GEC Alsthom, meanwhile, has taken longer to emerge from its shell since GEC of the UK and Alcatel Alsthom of France merged their power and other heavy engineering activities. After sorting out the inevitable cultural differences, the power business is now firing on all cylinders, taking advantage of product synergies between the two partners and its gas turbine licence agreement with GE.

The four Japanese suppliers, led by Mitsubishi, have carved out an important sphere of influence in the Middle East. But *this is not* an industry where they have captured technological leadership from the west – Hitachi and Toshiba are GE gas turbine licensees.



A General Electric compressor rotor built for the most powerful gas turbine in the world

To reap the rewards from the opportunities available in the 1990s, the big suppliers will need to keep open as many options as possible. The trend to combined cycle is not universal, and political and *resource-use considerations* will guarantee coal-fired steam-turbine generation a continued important role in much of the Third World, especially China.

Nowhere is the need for suppliers to stay flexible more marked than in environmental control systems. While there is universal concern about emissions, fashions change rapidly and the extent to which fine words are matched by deeds varies widely from country to country.

"A few years ago people were talking about sulphur dioxide, then nitrogen oxide, and there are more things coming up," says Mr Lundberg. The uncertainty partly explains why the big suppliers are maintaining their competitiveness in nuclear fuel technology – a no-emission method of generating power, albeit still beset by worries over safety of the power generation process and the subsequent reprocessing of waste.

All the opportunities come together in eastern Germany and – with risks too – its former communist neighbours. Siemens and ABB have been particularly active in eastern Germany where cash-rich German utilities plan to spend somewhere between DM20bn and DM40bn before the end of the century on new or replacement plants.

Further east, demand for clean, efficient power plant is enormous, but so are the financing problems and political uncertainty. All the big western companies are trying to cement links with suppliers such as Skoda of Czechoslovakia and Leningrad Metal Works, the well-regarded Soviet steam turbine producer.

The winners will get a ringside seat at one of the most tantalising of many opportunities now beckoning, and occasionally bewitching, the supply industry. Fortunately, most producers are keeping their heads, predicting a "reasonably buoyant" era ahead after the "perfectly horrible" or even "catastrophic" 1980s.

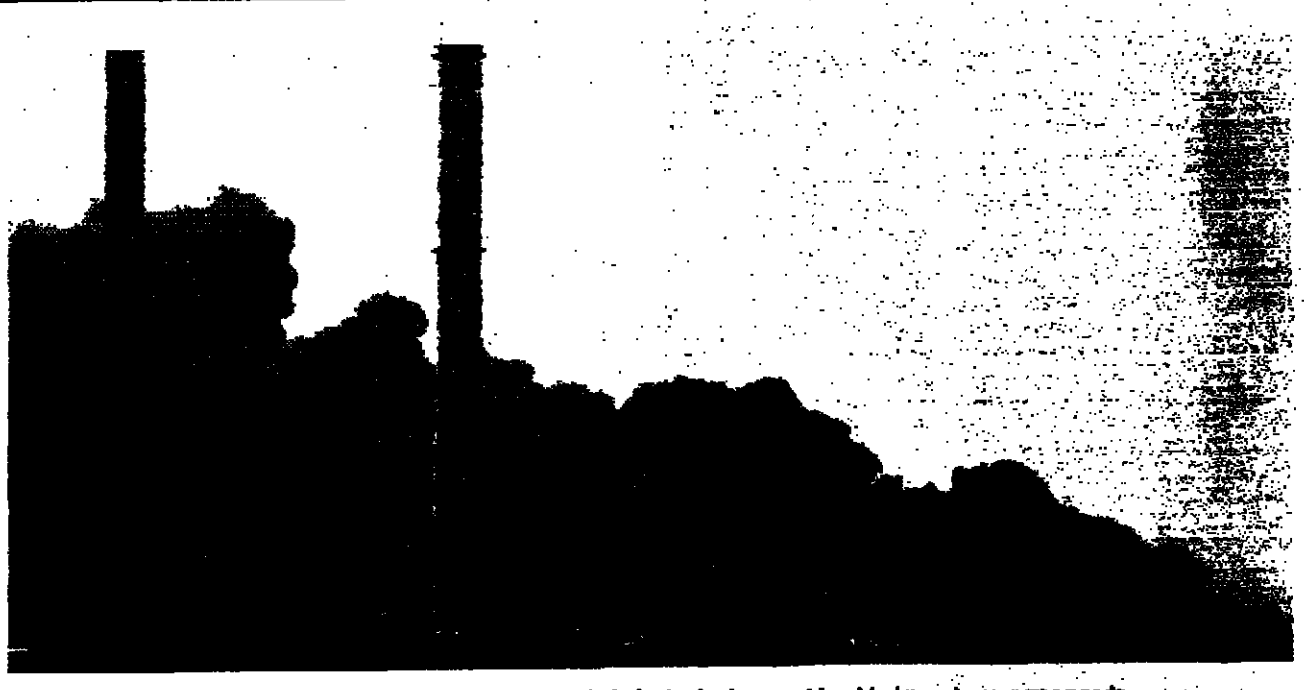
IN THIS SURVEY

FGD system on a power station in west Germany

Editorial Production: Phil Sanders

Jim Millard reports on the Middle East market after the Gulf war

Modest upturn for suppliers



Kuwait City power plant: destruction of much of the country's industry had a considerable impact on power needs

THE swift conclusion to the Gulf war has done much to repair the frayed confidence of the Middle East's business community. This, in turn, has led to a modest recovery in the fortunes of some power equipment suppliers.

While the number of power plants in the Gulf mushroomed during the oil boom of the 1960s and 1970s, the 1980s were quiet by comparison. With oil prices now stabilised at about $22 a barrel and looking likely to fall still further, many see the fate of the power supply industry as depending on two factors: first, sufficient political stability to permit economic recovery in war-torn states such as Kuwait, Iraq, Iran and Lebanon; second, the success or failure of a significant private sector in the relatively stable Gulf states.

The more developed states are now looking to reduce their dependence on petrodollars by building up both manufacturing and service industries. The extra growth generated by these activities is starting to provide a fillip to the regional power supply market.

At the heavy end of the generation scale, the oil-rich Gulf states (including a pre-war Kuwait) have been locked in a race to keep their generation capacities abreast of rapidly growing demand forecasts, at a time when many older stations are approaching the end of their design lives.

The absence of any hydro resources, and vast and increasing reserves of oil and gas on their doorsteps, have made cheap, flexible and modular gas turbine units the obvious choice. Conversions and refits have become common as utilities look to boost output and efficiency from existing older thermal plants with gas turbine "topping" cycles. Newer gas-fired stations have been converted to combined cycle plants through the addition of waste heat boilers and steam turbines.

In Dubai, where electricity consumption is growing at around 10-12 per cent or more annually – more rapidly than anywhere else in the Gulf – the Dubai Electricity Company is keen to give fresh impetus to projects that suffered from uncertainty and high insurance rates during the war.

The Jebel Ali Free Zone and Port in Dubai continues to grow at such a rate that there is speculation that it will soon require a separate and dedicated power supply, despite the commissioning in 1993 of the 400MW Jebel Ali 'G' plant, originally earmarked for construction at Al Mamzar on the Dubai/Sharjah border.

The Dubai Electricity Company recently confirmed a $950m contract to a European consortium led by Siemen's power plant subsidiary KWU, in the face of competition from both Asea Brown Boveri (ABB) and Mitsubishi-led consortia.

Kuwait's most modern station, the 2,400MW Al-Zour South plant, survived the conflict relatively unscathed

In Kuwait, the mood is less certain. The combination of a dramatic reduction in the population following the exodus of many non-Kuwaitis, and the destruction of much of the country's industry has had a considerable impact on Kuwait's power needs, with inevitable investment casualties. Plans for a 2,400MW gas-fired station at Subiya have been suspended while energies and currency are diverted to more pressing problems.

Ironically, Kuwait's most modern station, the 2,400MW Al-Zour South plant, survived the conflict relatively unscathed and is ready to come on-stream as soon as damaged transmission lines have been repaired. It is estimated that this plant alone could supply up to 75 per cent of Kuwait's power needs.

Although some repairs are required at the Doha East plant, generating facilities at both Doha West and South Shuaiba have been active since April. It is now clear that further government investment in base load power will have to wait until justified by economic growth.

If and when the orders do come, it is by no means certain that the recipient companies will be from Kuwait's main war allies, the US and Britain.

Speculation abounds that the severe contract conditions that discouraged most leading contractors from bidding for Kuwaiti contracts during the 1980s will be retained, leaving only Japanese companies such as Mitsubishi Heavy Industries, Hitachi, Toshiba, Taisei Corporation and Sasakura Engineering Company to repair and replace what they built in the first place.

This view is reinforced by the likelihood of low bidding and generous financing as the Japanese seek to make amends for their lack of involvement in the allied coalition.

Iraq, on the other hand, needs massive investment in generating capacity, but has little hope of receiving it in the foreseeable future. While damage appraisals vary, Mr Ulf Bejmar, head of ABB's West and South Asia regional office in Amman, Jordan, estimates that about 70 per cent of Iraqi capacity was destroyed, with a further 20 per cent currently out of action through distribution damage.

With US and European suppliers ruled out politically for the time being (with the possible exception of Swiss-Swedish ABB), only the Soviet Union and Japan have the industrial muscle to build power stations on such a scale. But with the UN demanding a hefty chunk of Iraq's oil revenues for war reparations, and banks worldwide unwilling to provide credit guarantees, neither look likely to take up the challenge in the near future.

Sources at KWU, which has previously built oil-fired plants in Iraq, are more bullish, however, saying that the company expects to win a share of the contracts regardless of the government in power. It is, they say, simply a question of the finance becoming available.

Iraq needs massive investment in generating capacity but has little hope of receiving it

Elsewhere in the region, increased stability has seen a dramatic increase in activity in even the most war-torn of countries such as Iran and, less conspicuously, Lebanon. Improvements in Iran's oil and gas revenues and an end to the nine-year war with Iraq have enabled several projects to be reactivated, including large hydroelectric schemes on the Karun and Arras rivers.

The largest of these, the 3,000MW Karun-3 dam, is likely to be built by a consortium of Construtora Andrade Guti Errez of Brasil and Technopromexport of the Soviet Union, although foreign financing and export credit guarantees for the $3bn project are still not forthcoming.

Plans for a further 4,800MW of capacity spread over six plants in western Iran have also been drawn up, including a 1,200MW combined cycle plant at Gilan, and a further hydroplant, Karun-4.

Iran's long-standing relationship with the Soviet Union has also given it a chance to redevelop its nuclear power programme, started in the 1970s but halted in 1980 at the start of the war with Iraq. The Islamic Republic News Agency (IRNA) reported in June last year that the Soviet Union would be building two nuclear plants in Iran as part of a wide-ranging trade agreement. Mohsa Nourbakhsh, Iran's finance minister, confirmed that one of the plants would be a partly finished station at Bushehr, abandoned by contractors KWU in 1980.

Further north, where hostilities in Beirut appear to have ended there is evidence that local investors are starting to cast their eye over the Lebanese market where shortages, theft and rationing of electricity have restricted use to about six hours daily in the Beirut area.

At a recent seminar on power and water shortages sponsored by the American University of Beirut, plans were revealed for the immediate repair of both the Jiyeh and Zouk power stations.

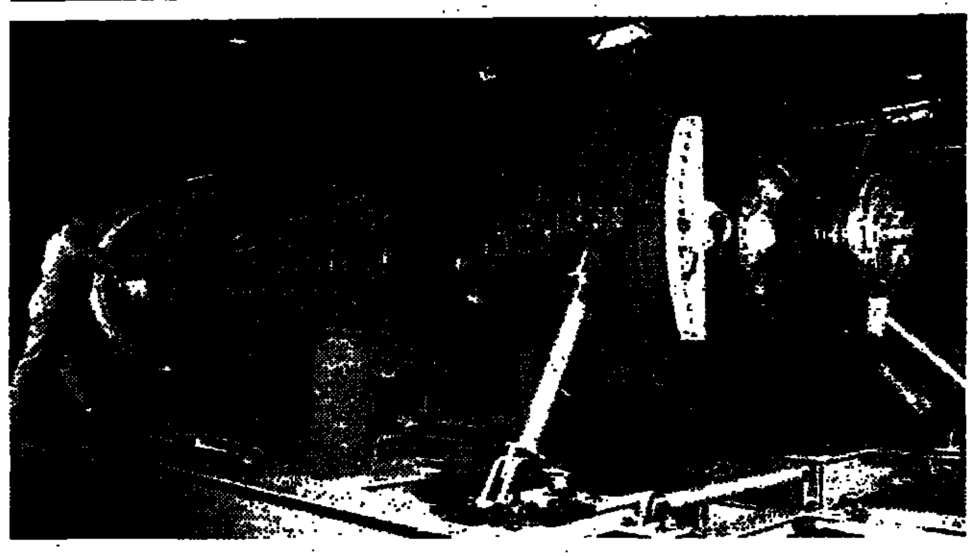
The mood among most manufacturers, especially those of diesel and gas generator sets and other standby power equipment, is now very much one of "wait and see". Much of the need for this type of equipment is based on installations such as hospitals and office blocks, most of which have long since been destroyed.

Mr Ian Dale, chief executive of the Dale Electric Group, a long-time manufacturer and exporter of generator sets worldwide, is optimistic but cautious about prospects in Lebanon:

"Nothing will really happen until the area is totally demilitarised – probably within the next 18 months. Then we shall see signs of local businessmen bringing their capital back from Cyprus."

The real problem with the Middle East, he explains, is the absence of strong local markets, unlike the situation in South East Asia. "Compare Indonesia, with 200m people, to Saudi Arabia, with just seven million, and you can see why the Middle East will always be a difficult market," he says.

The author is deputy editor of Middle East Electricity



'Preserving the balance of power in Europe': a 33MW Ruston engine built at Lincoln

■ PROFILE: GEC Alsthom

Anglo-French venture forms a strong force

IF the Japanese ever assume the technological leadership in power generating equipment that they have achieved in consumer electronics, it will be because mergers such as that between the heavy engineering businesses of GEC and Alcatel Alsthom have gone badly wrong.

Fortunately for GEC Alsthom's two powerful shareholders, there appears to be little possibility of that happening. The Anglo-French venture has emerged as a strong force in the world power engineering market, buttressed by a broad product range and by the licensing agreement that European Gas Turbines, its 90 per cent-owned subsidiary, has with General Electric of the US.

GE owns the remaining 10 per cent of EGT, cementing a link which goes a long way beyond many of the US company's manufacturing agreements with other companies.

GEC Alsthom was formed largely in anticipation of the Single Market and against a backdrop of growing concern in Europe about the competitiveness of nationally-based heavy engineering concerns. Four of its nine divisions are devoted to power generating equipment and accounted for 44 per cent of the company's Ecu6.55bn ($7.6bn) of sales in 1989/90.

The formidable power of Japanese manufacturers, in harness with their financial institutions, has often proved too much for western competitors. But Mr Nicholas Salmon, deputy managing director of GEC Alsthom's power plants division, says the formation of groups such as the Anglo-French company and Asea Brown Boveri has been necessary in preserving the balance of power in Europe.

Indirectly, GEC Alsthom is also part of the GE family that produces the world's biggest, hottest and most efficient gas turbines, says Mr Kelvin Bray, chairman and chief executive of EGT.

Given the importance of large, sophisticated gas turbines in modern combined-cycle plants, the relationship with GE is, perhaps, more important to GEC Alsthom than it is to the US company, but it is not a one-way process. EGT is supplying power turbines for GE's aero-derivative range and is working with GE in aircraft gas turbines. GE and EGT also have a transatlantic technology council for heavy-duty gas turbines, helping each side to issue technology simultaneously.

Rationalisation of European steam turbine capacity was a key factor behind the cross-border mergers of the late 1980s and this sector was the only big area of significant overlap for GEC Alsthom to tackle.

But even there, says Mr Salmon, it was helped by the fact that both constituents had similar steam turbine technology, removing the need to make difficult choices about which technology to drop.

Elsewhere, the fit has been remarkably free of overlaps and the company has emerged with a turnkey contracting capacity and equipment ranging from turbines through boilers to flue gas purification, with nuclear reactors virtually the only omission. No one at GEC Alsthom is too worried about that in the present climate.

GEC Alsthom was formed largely in anticipation of the Single Market

The combination in gas turbines has been particularly effective, producing a range from 2MW to 212MW out of the small Ruston turbines in the UK, Alsthom and the German Kanis' larger models, and aero-derivative products in mid-range.

Alsthom, Kanis and Ruston had agreements with GE before the merger, and Mr Bray says that "nothing that we were doing has had to be stopped or cancelled, although we were able to do some things more economically."

Turnover at EGT has risen from £250m at the time of the merger to about £470m in 1990/91, and a £100m product and process development programme is underway.

Capacity is being expanded, with a new facility planned in France for producing a larger volume of rotors and complete gas turbines incorporating the latest blade technology.

Progress at EGT is unlikely to cut much ice with the 500 workers at GEC Alsthom's Larne factory which will close at the end of the year. The Northern Ireland plant was a victim of the cancellation of the UK's 900MW coal-fired stations and nuclear programme, that led to the announcement in April of 900 UK job cuts.

But Mr Salmon believes that, internationally, the overcapacity in steam turbines is likely to continue at a "more acceptable rate" until the end of the 1990s. That is based partly on projections for conventional coal-fired stations which underline their continuing importance in Third World countries.

GEC Alsthom is particularly well-placed in China which is likely to remain a big user of coal-fired stations and represents the company's largest export market for power plant. GEC Alsthom has 6300MW of capacity installed or on order in China, due partly to the considerable long-term efforts by its forbears to open up a difficult market.

Elsewhere, GEC Alsthom was later than its rivals, Siemens and ABB, in making acquisitions in eastern Germany, purchasing two steam generator companies in April. But it has a bigger installed base than its competitors, says Mr Bray, with 21 gas turbines in use in the former East Germany.

And Mr Salmon points out that the German parts of GEC Alsthom's business, such as boiler-maker EVT and Walther with its flue gas treatment systems, have products that are relevant to the eastern German market.

Overall, Mr Salmon is reasonably optimistic about GEC Alsthom's prospects in the power plant business worldwide, and notes that the demand in many western markets for equipment to replace ageing, inefficient power stations provides "an element of inevitability" to balance the industry's inherent cyclicality.

Along with its competitors, GEC Alsthom is keeping its options open to address the diverse needs of customers, especially in environmental control.

In the UK, for example, it has joined British Coal's "topping cycle" project at Grimethorpe in Yorkshire, a combined-cycle system incorporating sophisticated coal gasification techniques.

The aim of such participation is to ensure that if and when coal regains its popularity as a fuel source in western markets, GEC Alsthom is well placed to take advantage. "We have a view that when coal comes back it will be burnt in a more environmentally-friendly way," says Mr Bray.

Andrew Baxter

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Torness AGR nuclear power station

THE UNITED KINGDOM

Trend towards turnkey deals

RECESSIONS may come and go in the power equipment industry, but few markets, if any, have ever undergone the structural upheaval that has occurred over the past two years in the UK.

Privatisation of the electricity supply industry has changed the customers, their priorities and capabilities. UK generating equipment suppliers, which hitherto had the market to themselves, have been forced to dance to new tunes.

The UK has become the most open market in Europe and the only one where all four of the world's main gas turbine technologies are represented. It is also illustrating more strongly than virtually anywhere else the trend towards turnkey contracting rather than piecemeal sales of components.

According to one big equipment supplier: "Pre-privatisation the UK was a components market with the customer (the CEGB) engineering and multi-purchasing plant to his design and specification. Now the derivatives from the CEGB and all the new people are saying: 'Give me a box.'"

'You can go from signing the contract to turning on the power two years later'

Regional electricity companies and the new independent companies which have never built a power station simply do not have the resources to design one. And while National Power and PowerGen, the direct descendants of the CEGB, still retain these skills, they view themselves as operators, rather than builders, of power stations.

In the second half of the 1980s, rising demand for electricity reduced the reserve margin between capacity and maximum usage, a problem which the CEGB had begun to address by placing design contracts in 1988 for three very large coal-fired stations.

These were doomed before they even got off the drawing board, as privatisation was even then in the offing. Equipment suppliers knew privatised utilities would be unable to take on the commercial risk of plants that took five to seven years to build, or up to 10 years for nuclear plants.

The repercussions of the cancellation of the 900MW coal-fired stations in 1989, the realisation that no more would be built at least before the end of the century – if ever – and the abandonment of the UK nuclear programme are still being felt.

Earlier this year, GEC Alsthom announced it would close its Larne manufacturing operation in County Antrim with the loss of 500 jobs. Larne manufactured heavy equipment for large steam turbines and depended heavily on the UK nuclear programme.

It did not take a genius to work out that the privatised utility industry would want cheaper, more efficient power stations which it could order virtually off the shelf. The decision by the UK government to allow the use of gas for power generation opened the way to the use of gas turbine combined-cycle power stations which meet all these criteria, along with speed of construction. "You can go from signing the contract to turning on the power two years later," says Mr Peter Muecke, general manager of Siemens' power engineering business in the UK.

The fact that much of the UK's generating capacity was coming to the end of its natural 30-40 year life was yet another factor in favour of combined-cycle, because utilities could rapidly replace uneconomic capacity and avoid the difficulties of retrofitting.

Despite Britain's considerable worldwide expertise in turnkey contracting, it was the foreign equipment suppliers who took advantage most rapidly of the new opportunities.

Siemens has been a big beneficiary, picking up a £300m order last year from PowerGen for a 900MW station at Killingholme, South Yorkshire, and a £290m contract this April for a 680MW station at Rye House, Hertfordshire.

Foreign equipment will also power the biggest combined-cycle power station yet announced in the UK, with Mitsubishi, using Westinghouse technology, supplying the gas turbines for Enron's 1725MW Teesside project, one of the world's largest.

Some UK suppliers did not, at first, seem well positioned for the new market conditions. Northern Engineering Industries lacked access to the large gas turbines of about 150MW capacity needed for combined cycle until its joint venture company with Asea Brown Boveri was formed at the beginning of last year. Last summer the venture won its first big UK contract for National Power's 650MW station at Killingholme.

Anglo-French GEC Alsthom, after some initial disappointments on the major contracts, has recently picked up four medium-sized orders, including a 160MW combined heat and power (CHP) station at Sellafield, and two identical 350MW combined cycle power stations at Corby and Peterborough.

The big UK plant contractor John Brown, which has a gas turbine manufacturing agreement with GE, has yet to win any UK combined-cycle orders but has hopes of remedying that if Scottish Hydro's Keadby project proceeds.

The future for equipment suppliers in the UK market is very difficult to predict, given such factors as gas prices and the difficulties independent generators are finding in putting projects together. But most suppliers believe that, for environmental and efficiency reasons, the vast majority of stations bought for the UK will be combined cycle.

Mr Nicholas Salmon, deputy managing director of GEC Alsthom's power plants division, notes that in 1988 and 1989 experts were forecasting that the UK's combined cycle capacity might be 8,500MW by 1995.

'I think you're a brave man if you put any absolute figures on your extrapolations'

"Already we have seen nearly twice that committed, and the perceived wisdom is that the market is probably more like 12,000MW through the 1990s." He cautions, however, that "it's a new market, there are both gas supply and electricity demand parts of the equation that are not mature, and I think you're a brave man if you put any absolute figures on your extrapolations."

CHP projects on a smaller scale to GEC Alsthom's Sellafield deal are also generating interest, although infrastructural costs are an obstacle to its use for district heating.

A more likely application is for individual factories, where CHP has been in use for decades, and now offices and hospitals. H. Leverton, the Windsor-based Caterpillar dealer, recently won an innovative contract with the Mayday Hospital in Croydon under which the dealer bears the £400,000 capital cost and sells the heat and power to the hospital, guaranteeing it savings of £31,000 a year for 10 years.

But there are, as ever, uncertainties. Mr David Andrews, consultant for Leverton, says there is no clear guidance from the Treasury on whether such deals are legal for hospitals. And there is also a broader debate over the rules for companies selling their surplus power to the UK's electricity pool, or spot market.

Andrew Baxter

POWER GENERATION 4

Political changes have reshaped the sales outlook, writes **Maurice Samuelson**

The big clean-up is just starting

THE political and economic changes of the past two years have dramatically reshaped the outlook for sales of equipment to combat pollution from coal-fired power stations.

In some countries, where the phenomenon of acid rain first roused public concern in the 1970s, plans to install flue gas *desulphurisation* (FGD) systems have been buffeted by the economic downturn.

In Britain, an already cautious programme of sulphur scrubbing has been hit by privatisation of the electricity industry.

In western Germany, orders for FGD have dried up for a *different reason* – most of its coal-fired plants have already been fitted with sulphur scrubbers.

In the rest of Germany and in eastern Europe as a whole, however, the big clean-up is just starting.

The new regimes show a keen interest in drastically reducing the sulphur dioxide (SO_2) and nitrogen oxide (Nox) belching from their power stations and other fossil-fuel burners. Unfortunately, Germany apart, these countries lack the money to match their "green" aspirations.

In Britain, one of Europe's biggest coal consumers, the present FGD programme began in the mid-1980s under the EC rolling programme to cut sulphur pollution drastically by the year 2003.

The Central Electricity Generating Board, which produced nearly all the power in England and Wales, was initially expected to install sulphur scrubbers on some 12,000MW of its capacity, representing the bulk of its base-load coal-fired plant. It also pledged to include FGD at any new coal-fired stations.

This commitment, following many years of thin orders for new conventional power stations in Britain, had heartened the combustion plant builders. But it began to evaporate two years ago with the decision to abolish the CEGB and to split its fossil-fired assets between two successor companies, National Power and PowerGen.

Mrs Margaret Thatcher, in her closing months as prime minister, agreed to cut the scrubber programme from 12,000MW of generating capacity to 8,000MW.

This was on the grounds that both these companies would in any case reduce their sulphur output more cost effectively by building "clean" natural gas stations and by burning more low-sulphur imported coal in their remaining coal-fired stations.

More recently, however, *uncertainty has arisen as to* whether even this 8,000MW of capacity will be retrofitted. National Power is pressing on with FGD at its 4,000MW station at Drax, North Yorkshire.

Under a £400m contract there, Babcock Power is installing a Babcock Hitachi system to trap the sulphur in powdered limestone and produce a commercially saleable by-product of gypsum for the plasterboard industry.

PowerGen may not, as previously expected, match National Power by putting in scrubbers at 4,000MW of its own coal-fired plant.

Work has started on adapting the 2,000MW station at Ratcliffe on Soar near Nottingham. (The £250m project there went to John Brown Engineering which is using a limestone-gypsum project licenced from GEES of the US.)

PowerGen has also chosen John Brown to clean up the 2,000MW station at Ferrybridge in South Yorkshire. Although the Department of Energy apparently assumes this project will go ahead, PowerGen itself is delaying a final decision about a site.

It is hinting that any new sulphur scrubbers might be built instead at one of its oil-fired power stations, such as Ince in Lancashire or Isle of Grain on the Thames, where it plans to burn Orimulsion, the cheap but sulphur-rich tar-derived fuel developed in Venezuela.

In Scotland, however, FGD is being squeezed in rather than out. Scottish Power, inheritor of the south of Scotland's fossil-fired plant, is believed to be under government pressure to install FGD at its 2,400MW station at Longannet on the Firth of Forth.

The Department of Energy apparently believes that coal burners in Scotland should help to meet the national target for sulphur reduction and *that not all the onus to do so* should rest on the privatised generators south of the border.

The economic logic is less impressive, however, since Scottish coal has a significantly lower sulphur content than English varieties.

Meanwhile, combustion and clean-up equipment suppliers prefer to look abroad. In contrast with the confusion in Britain, Korea and Taiwan are steadily building up their portfolios of coal-fired generating plant. They put FGD on them as a matter of course, while adding new scrubbers to older coal burners.

Korea is expected to build four 1,000MW power stations, all with FGD. There will also be scrubbers on four new 500MW generating sets planned in Taiwan.

The competition is intense.

Installed capacity of FGD systems, end 1990

Countries	Total (MW)
Austria	1,860
Canada	300
China	700
Czechoslovakia	(200)*
Denmark	1,570
Finland	540
France	600
Germany (west)	41,870
Italy	30
Japan	13,880
Netherlands	2,730
Sweden	1,090
Turkey	340
USA	81,730
USSR	45
TOTAL	147,285

*Not in operation. Source: IEA Coal Research, London

UK power stations are due to reduce nox output by up to 30% under a £170m plan

A recent Taiwanese order for FGD was awarded to Babcock Canada (owned by American Babcock) in competition with two other US companies, Foster Wheeler and Combustion Engineering, and with Babcock Power of the UK. Babcock Canada's price is said to have been 30 per cent below that of its nearest rival.

An even bigger, although far less tangible, market for scrubbers beckons from eastern Europe which has 80,000MW of coal-fired power stations. According to the International Energy Agency's London-based Coal Research Department, there is only one FGD plant operating in eastern Europe – a 200MW installation in eastern Germany. The Soviet-supplied system at a Czechoslovak station was, at the end of last year, out of action.

Throughout the area, however, there are grandiose plans. Apart from eastern Germany, where west German industry is expected to retrofit 4,000MW by 1996, they include: Poland: 11,400MW to be fitted by the year 2000; Czechoslovakia: 2,000MW-3,000MW; Hungary: about 1,200MW earmarked for retrofit; Bulgaria: FGD approved at 12 power stations totalling 2,300MW; and Yugoslavia: FGD to go on 600MW of *new plant and 1,500MW to be* retrofitted.

Nitrogen oxide (Nox), the other acid rain gas emitted by road transport as well as power stations, is much easier for these electricity industries to tackle.

In Britain, where about 40 per cent of nox comes out of coal-fired power stations and a similar quantity from motor vehicles, power stations are due to reduce their nox output by up to 30 per cent under a £170m 10-year scheme launched in 1987. It involves redesigning the burner heads in the power station boilers. A similar programme has been launched in eastern Germany but Poland is the only other former communist state to start work.

Dust emissions are also *being widely* controlled by the use of electrostatic precipitators.

The cost of sulphur reduction, together with that of water purification, is in a different league, however. It has been estimated that it would take 20 years and at least $200bn to bring east European industry up to western environmental standards. Another estimate puts the cost of a similar clean-up in eastern Germany at DM300bn.

The scale of these costs and the cross-frontier nature of the pollution have led some western countries, notably Germany, the Netherlands and Sweden, to conclude that investing in pollution control in their backward neighbours is more cost effective than further marginal improvements at home.

This view is strongly advocated among western equipment suppliers. Mr Martin Peters, sales director of Babcock Power, says that the cost of reducing SO_2 emissions by 80-90 per cent is half of that trying to eliminate 99 per cent of SO_2. Instead of striving for the 99 per cent clean-up in its own industries, therefore, an environmentally conscious country such as Sweden should spend its money more effectively by spending the difference on helping to clean up neighbouring countries which cannot afford to do the job at all.

Estimates of future FGD installations until the end of the century (in Gigawatts)

	New	Retrofit	Total
Bulgaria	–	2.3	2.3
Canada	0.6	2.0	2.5
Czechoslovakia	–	2.5*	2.5
Denmark	0.4	0.3	0.7
Finland	0.6	0.4	1.0
Germany (West)	1.0	4.0*	5.0
Hungary	–	1.0	1.0
India	–	0.5	0.5
Italy	6.0	3.3	9.3
Japan	2.2	–	2.2
Netherlands	1.2	–	1.2
Poland	–	11.0*	11.0
Sweden	–	0.1	0.1
Taiwan	2.1	–	2.1
USA	26.0	50.0*	76.0
UK	–	8.0	8.0
Yugoslavia	–	2.1*	2.1
TOTAL	40.1	87.5	127.6

*not included in IEA Coal Research database Source: IEA Coal Research, London

Andrew Baxter examines trends in technology

Plenty of room for new developments

PREDICTING trends in power generation technology is a difficult business – so much depends on factors that are outside the suppliers' influence, and individual markets vary widely in preferences and operating environment.

But the starting point for most forecasts is that, as General Electric of the US puts it, "no dramatic new technology breakthrough is on the horizon." Accordingly, worldwide demand will be met with technologies *that exist or are in* development today.

Fortunately, this prospect leaves plenty of opportunity for technological development, even if the eventual success of a product in the market might depend as much on fuel price trends as technical expertise. Fuel represents up to one half of the cost of the generated kilowatt/hour, and the relative price of different fuels will dictate future trends, says Mr Patrick Wynne-Jones, director of the Energy Information Centre in the UK.

Later this month, the Power Supply Europe exhibition at Birmingham's National Exhibition will demonstrate the development or adaptation of a wide range of current technologies by the established big names of the industry and many of the smaller players.

The common factors linking many current trends in power generating equipment are efficiency, flexibility and the environmental effect. This is illustrated in everything from combined cycle gas turbines to mini-power stations.

In combined cycle, the exhaust gases from a gas turbine are used to make steam which is used to drive a steam turbine. This, in turn, generates more electricity and avoids wasting exhaust gas through a chimney stack. Consequently, the thermal efficiency of combined cycle is *normally about 50 per cent*, compared with 38-39 per cent for large coal-fired plant.

While the wider availability of natural gas in traditional markets has been an important factor in the growth of combined cycle, the development of dependable large gas turbines has been the most crucial technological factor.

Spurred indirectly by the heavy spending in the closely-related aircraft engine field,

'We and other players have had to drive down the thorny road ourselves'

and particularly in turbine blade technology, the thermal efficiency, size and reliability of gas turbines have all been increased, making them the industry's growth technology.

Inevitably, GE has had an enormous inbuilt advantage, given its aero-engine expertise, and Mr Lundberg comments that the US company has benefited from a "free ride" through US government research funding into aero-engines. "We and other players have had to drive down the thorny road ourselves," he says.

But ABB, along with Siemens and Mitsubishi, has also developed a strong presence in large gas turbines, which should really be called combustion turbines – they can operate a wide variety of both gas and liquid fuels.

The gas, too, can come from a variety of sources and coal gasification, when linked to combined cycle power generation, has gained increasing attention over the past few years. Emissions are significantly *lower than for conventional* coal-fired plants.

Coal gasification is still in its infancy, however, and a number of companies are working on different approaches.

Given the nature of combined cycle, research efforts have also been directed towards waste recovery steam generators and steam turbines. Boilers, often overlooked despite being of comparable value to turbine generators, are finding a new application as waste recovery steam generators in combined cycle plants, and are an area where environmental concerns are prompting technological change.

One of the most significant trends has been fluidised bed combustion, an innovation which underlines both the flexibility and environmental security that utilities are now seeking. FBC boilers reduce emissions and can burn a wide variety of fuels from coal to municipal solid wastes.

Big producers such as GE emphasise that steam turbine technology is not being ignored. The US company has over recent years introduced several significant improvements in designs and materials to improve the thermal efficiency of steam turbines.

Despite the greater efficiency of combined-cycle compared with open-cycle power plants, it still lags behind the 80-90 per cent thermal efficiency claimed for combined heat and power (CHP), which uses the inherent waste heat from conventional steam sets – or much smaller spark-ignited engines – to provide water or space heating for hospitals, offices, factories or even districts.

Proponents of CHP often argue that it renders conventional central power stations obsolete. Although technologically simple, the high cost of infrastructure for heating has been a discouraging factor for investment in CHP, even if the cost of entry can often be low.

Availability of natural gas has been a big factor in the growth of CHP, which began in the 1970s – the Netherlands, for example, accounts for 20 per cent of its power needs by mini power stations based on CHP and could reach 40 per cent by the end of the century.

Caterpillar, better known as *the world's biggest construction* equipment group, has installed 400 mini-power stations in the US and several thousand in the Netherlands, and has benefited from its extensive dealer network.

Centrax, a Devon-based turbine generating set producer, has sold 25 sets into Netherlands.

Caterpillar is also leading the way in using landfill gas – the methane-based gas which can build up on household waste tips – as fuel for a spark-ignited Cat engine.

In April, Japanese motor group Mazda announced a 2MW facility for its new Hofu car plant near Hiroshima. The unit has two special features – a facility for storing unused energy as hot water under very high pressure, and a system making use of thermal energy released when the boiler's steam, after powering the turbines, recondenses into liquid.

■ PROFILE: Siemens

No compromise over independent stand

ALONE among the big European producers of generating equipment, Siemens of West Germany stood aside from the wave of cross-border takeovers in the late 1980s – and gives the clear impression that its independence will remain uncompromised.

"There is a German saying that the most powerful is strongest alone," says Mr Heinrich von Pierer, head of KWU, Siemens' power generation business. "I don't think it is necessary to merge with another company."

But KWU has not been standing still. To do so would have been suicidal for a company that, 10 years ago, derived more than 70 per cent of its business from nuclear work. That has now declined to about 25 per cent, due as much to KWU's efforts as to the dearth of nuclear reactor orders virtually worldwide.

In fact, one of Siemens' current strengths is its full spectrum of power technologies. Along with Framatome of France, with which it co-operates on nuclear plant building in export markets and – more recently – domestically, it is probably the world's biggest supplier of generating equipment *for nuclear stations.*

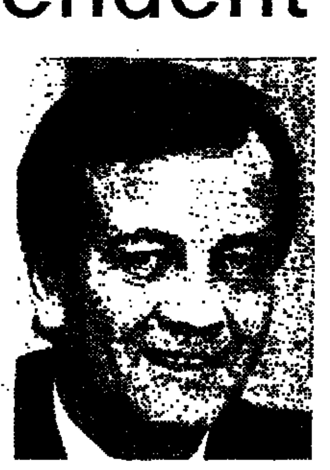
In large gas turbines, it is the world's second biggest player after General Electric of the US. Last year it had 9 per cent of the world gas turbine market as a whole, according to UBS Securities in New York. It is also in the top five for hydro-electric equip*ment and steam turbines, and* considers itself the biggest player in power instrumentation and control equipment.

The SPRU Power Plant Data Base says Siemens has figured consistently since 1955 among the top three exporters of turbine generators and has lifted the percentage of production taken by foreign markets from less than 50 per cent to 60 per cent since 1985.

Mr von Pierer attributes KWU's success partly to a willingness to offer turnkey contracts in many countries. The strong export position also leaves KWU well-placed to benefit from the expected liberalisation of public procurement in *the post-1992 European* Community.

The most graphic illustration of these factors has come in the past 18 months in the UK. Helped by its research and development in advanced gas turbines, Siemens has won two big contracts from PowerGen, each worth about £300m, as *the domestic suppliers' monopoly* was broken.

KWU was formed in 1969 when Siemens and AEG combined thermal power businesses. Siemens later took over AEG's stake and reabsorbed KWU in 1987. KWU made good profits until the end of the 1980s from its core *nuclear business, but last year* nuclear contracts came mainly from servicing their own plant and replacement equipment for plants built by other companies.



Von Pierer: 'I don't think it is necessary to merge'

KWU's nuclear fortunes reached a low point two years ago when the German utilities abandoned the Wackersdorf reprocessing plant in eastern Bavaria. KWU, says Mr von Pierer, was in a difficult position for six months, but has since recovered its momentum.

In the intervening period a number of events have helped restore KWU's fortunes and *Mr von Pierer expects total* orders to reach about DM8bn in the year to September, against DM6.8bn in 1989/90.

German reunification has opened up a new domestic market and Mr von Pierer is confident that KWU will benefit heavily from the DM20bn-DM30bn expected to be spent before the end of the century to replace or modernise the east's old lignite-fired plants.

Siemens, one of the biggest western investors in eastern Germany since unity, has bought a turbine factory in Goerlitz and expects to have more then 2,000 eastern employees in power engineering by the end of this year.

Siemens has been talking to Skoda Plzen, the Czechoslovakian engineering group, about co-operation across a range of activities, and Framatome will be involved if there are any agreements on nuclear co-operation.

Further east, KWU and Finnish partners pulled off a *coup last month by winning a* FM700m deal to supply the Soviet Union with its first combined cycle plant, at Leningrad. This was Siemens' first conventional plant order in the Soviet Union.

Mr von Pierer says demand for new equipment in eastern Europe is enormous, and *points out that Siemens is benefitting* from its long history of activity there. Even so, he believes financing will remain a limit on the industry's growth in eastern Europe.

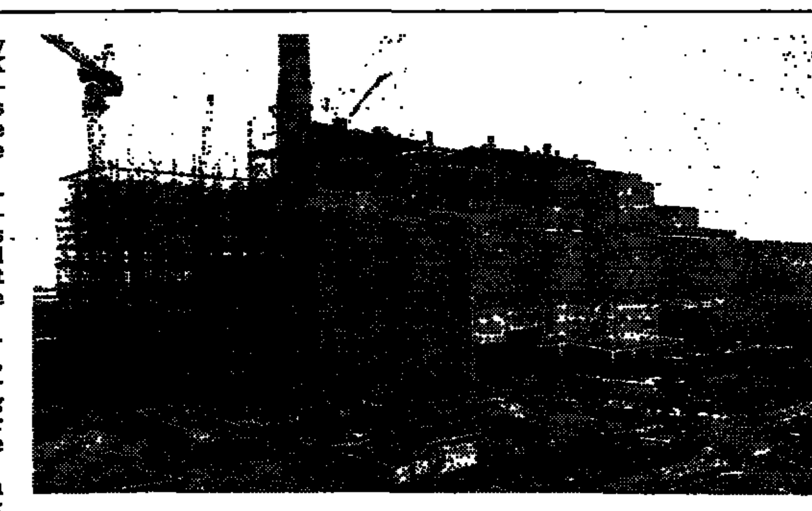
Overall, Mr von Pierer expects KWU to exceed the industry's average growth rates over the next few years. He is encouraged by the growing demand for increased generating capacity among developing countries and by the expected 130,000MW-150,000MW of new or replacement capacity in the US over the next decade. KWU is relatively well off for a foreign supplier by having manufacturing in the US, a legacy of its takeover of Allis-Chalmers turbines in the 1970s.

KWU has been careful to encompass the technological trends caused by 'green' concerns. In coal gasification it is supplying the turbines for a demonstration plant at Buggenum in the Netherlands which uses gas from hard coal, and one in Germany firing gas from lignite.

KWU, in tandem with the *Munich utility Bayernwerk*, has also carved out a 25 per cent world market share in the production of photovoltaic cells, following the purchase last year from Atlantic Richfield of what is now called Siemens Solar Industries. "This is not a very big market at the moment, but it's an invest*ment for the future,*" says Mr von Pierer.

All these developments give the KWU chief cause to be optimistic for prospects over the next five years, even if the nuclear business proper has not recovered by then. Mr von Pierer believes that this will happen in the second half of *the 1990s, and emphasises the* importance for KWU of maintaining the ability to be a turnkey supplier.

Andrew Baxter



An anthracite-fired power station under construction in Yue Yang, China

■ PROFILE: Babcock Energy

Buoyant outlook on centenary year

IT would have been singularly unfortunate if Babcock Energy, the UK boilermaker, had found itself celebrating a centenary in one of the industry's periodic downturns, rather than the more optimistic environment of the early 1990s.

BE, part of the UK's Babcock International, can be grateful that the company from which it developed was founded 100 years ago next month, and not six years earlier; few equipment suppliers would have felt much like opening the champagne in 1985.

Now, however, prospects are "reasonably buoyant", says Mr John Prosser, executive director of BE's power engineering division. "There's plenty going on and a lot of opportunities. The major problem is picking the ones that are really going to happen."

Babcock has been synonymous with boilers ever since George Babcock teamed up with his childhood friend Stephen Wilcox, another US engineer, to patent Wilcox's pioneering water tube boiler design.

The UK company is one of the 10 significant worldwide suppliers of large boilers, often competing against former parent Babcock & Wilcox of the US and erstwhile sibling Deutsche Babcock. Another former relation, Japan's Babcock-Hitachi, gained its independence from the UK company in the early 1980s, but the two groups retain a technology exchange agreement.

The Japanese company was the source of BE's expertise in environmental control systems – particularly flue gas desulphurisation (FGD) – which comprises the rest of its business.

Although Babcock points out that it *was fitting flue gas scrubbers on its* boilers in the 1930s, it is only in the past few years that environmental control systems have emerged as a significant natural accompaniment to the traditional boiler business. A graphic illustration of this is Babcock's £350m FGD retrofit contract for the Drax power station at Selby, in Yorkshire.

Winning the Drax deal, says Mr Prosser, was due partly to the experience built up earlier in the 1980s bidding (unsuccessfully) for FGD work in Europe. But the outlook for further large FGD contracts in the UK is at best uncertain. Utilities are switching to lower sulphur coals and are attracted by the economics of building new combined cycle plants rather than retrofitting FGD to existing coal-fired stations, as the old Central Electricity Generating Board had intended.

To maintain its momentum in FGD, BE is examining alternative processes to the conventional wet limestone gyp*sum process*, which produces large quantities of gypsum as a by-product. It is working with Bechtel of the US on a regenerative seawater washing process, using magnesium in the seawater to remove sulphur dioxide, which Mr Prosser believes has significant potential.

The other important trend for BE has been the increasing popularity of combined cycle plant, especially in the UK.

For BE the development has been double-edged: the consequential cancellation of large coal-fired stations has hit the potential domestic market for BE's larger boilers badly, while the waste heat steam generators (WHSGs) it supplies instead for combined cycle are smaller and more widely produced.

On the other hand, combined cycle plants are much smaller than conventional coal-fired open cycle stations, so more WHSGs are needed. And as combined cycle plants get bigger and more sophisticated, so will the WHSGs, which should play to BE's strengths.

Last June, BE *won the first of what it* hopes will be many contracts linked to combined cycle – a £35m deal to supply four WHSGs for the 900MW station being supplied by Siemens for PowerGen at Killingholme, South Yorkshire.

There is, however, uncertainty over future power station building in the UK, and Mr Prosser stresses that "we have not been holding our breath for the UK market for a long time because we would never have survived."

The Drax contract has cut exports' share of total sales from 40 per cent in 1985 to about 30 per cent, but the export total is expected to recover over the next few years to 40 per cent, with an eventual target of 70-80 per cent.

Achieving that will depend on two factors – BE's ability to exploit the opportunities for which it is best suited, and to maintain links with more broadly-based equipment suppliers which can supply turnkey power stations.

Mr Prosser is a paid-up member of the "coal will be back" tendency, and points out that, in much of the Third World, it never really disappeared. China, in particular, is seen as a market where coal will remain king, and thus present BE with significant opportunities, such as its current boiler supply order for the Yue Yang project.

The Middle East provided last year's biggest disappointment for Babcock with the cancellation of the £160m Al Anbar oil/gas fired boiler contract in Iraq, but with the Gulf War over BE sees plenty of opportunities, albeit taking time to come to fruition.

Eastern Europe looks like being self-sufficient in boilers, but Mr Prosser sees potential for Babcock's FGD plant and, especially, cheaper environmental products such as low nox (nitrogen oxide) burners. He hopes the European Bank for Reconstruction and Development could help finance contracts which do not bring commercial gains but improve the environment.

A flexible approach to the companies BE works with has also been increasingly necessary. For many years, says Mr Prosser, Babcock tended to ride on the coat-tails of GEC, but with GEC Alsthom tending to use its own Stein boilers, BE has had to look elsewhere.

Siemens, which does not have an in-house boiler-maker, is one source of business, but BE is also working with Asea Brown Boveri – despite the latter's purchase of Combustion Engineer*ing, the big US boiler-maker.*

BE's competitive position has, in any case, benefitted from heavy rationalisation at Babcock's Renfrew manufacturing plant over recent years, and the pruning of senior management undertaken during the short spell in the late 1980s when Babcock was owned by FKI, the UK electrical group.

But Mr Prosser tempers his optimism about business prospects, and BE's ability to benefit from them, with a note of concern about UK government backing for the industry. In particular, he worries about the shortage of "aid for trade" funds – often a prerequisite for winning big Third World contracts.

Andrew Baxter

There are many factors against open trade, writes **Andrew Baxter**

Politically sensitive sector

WITH the exception of defence equipment and, perhaps, aerospace, the world market for power generating equipment probably ranks as the most politically sensitive capital goods sector – and seems likely to remain so, whatever steps are taken to liberalise trade.

Over the past 30 years, sporadic attempts have been made to curb protectionism in the trade of turbine generators, but structural obstacles have normally proved insurmountable.

In the handful of countries which have local suppliers, the majority of orders are still placed domestically.

A recent book* by Sussex University's Science Policy Research Unit suggests a number of reasons why this is the case.

Utilities build up long-term relationships with local suppliers, often customising equipment design to their own requirements, which makes them less likely to place orders with other suppliers.

For internationally traded plant there are many other factors militating against open competition. Suppliers have worked hard at building "spheres of influence" in different regions of the world, exploiting both the utilities' wish for continuity and the customer country's fear of disturbing broader political and economic links.

Anti-competitive behaviour, including cartelisation, bribery and political pressure, has also been a concern for proponents of free trade.

The SPRU study notes that "the very lumpy nature of sales makes it a market where successful bribes, even in millions of dollars, can bring handsome returns."

Mr David Genever-Watling, senior vice-president of GE Industrial and Power Systems, notes that the the US Foreign Corrupt Practices Act bans facilitating payments or bribes. "Most of our competitors do not have that constraint. That's an issue in many parts of the world, as obviously we obey US law."

Governments have also played their part in impeding progress towards free trade.

Single Market reforms have handed the initiative back to the EC Commission

The heavy electrical industry's role as a supplier to the electrical supply industry and its contributions to national engineering infrastructure have led most governments to regard it as a strategically important industry which is to be developed and maintained.

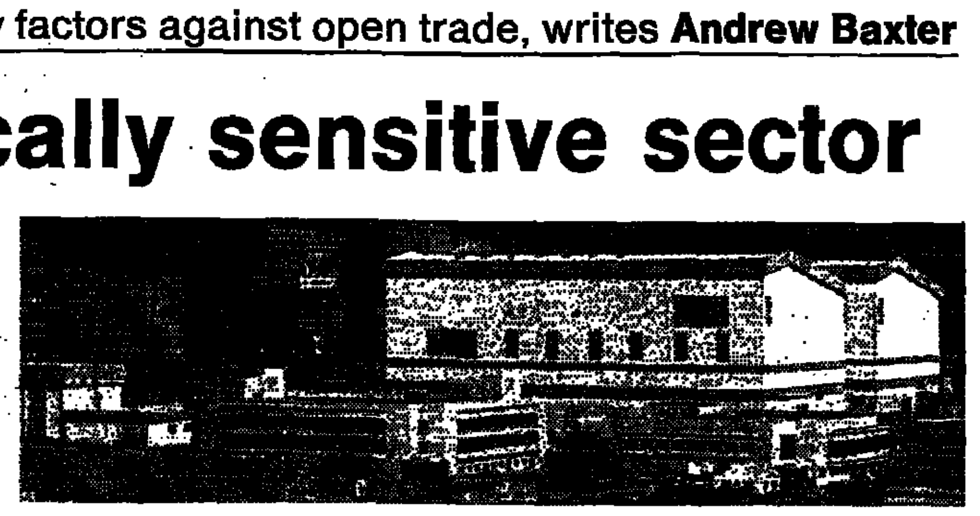
However, the SPRU notes that "the mechanisms by which governments have supported the industry have not always been the traditional ones of high tariff barriers and subsidies. The result, though not always the intention, has been that the industry has been largely protected.

"Procurement policies have encouraged purchases from national suppliers and standard systems have been designed by and for national suppliers and customers.

"Both these factors act as barriers to entry for foreign suppliers."

The main focus for this debate over recent years has been the European Community. Since 1985, only 8 per cent of power plant commissioned within the EC has been supplied through intra-EC trade, and 12 per cent from non-EC suppliers, according to the SPRU.

For different reasons, both the European Commission and the US have wanted to open up the market to competitive bidding for contracts – the US, because it has perennially complained of being denied access, and the Commission because it wants to encourage a much-needed rationalisation within



Governments regard power as a strategic industry: GuangDong nuclear station, China

Europe's heavy engineering sector.

Over the past decade national governments have contrived to keep the energy sector out of the Commission's directives, but the Single Market reforms have handed the initiative back to the Commission.

The Commission's Utilities Directive, which comes into force at the beginning of 1993, will bring practically every contract for power equipment under new rules that throw public procurement open to competitive bidding.

"Public", in this case, means public supply rather then public ownership, so non-state owned utilities are also covered, unless they are involved purely in industrial cogeneration.

A key issue in contract specification, technical standards, is addressed through measures enabling potential suppliers to obtain enough information to meet the customers' requirements.

Although there has been some grumbling from European suppliers and utilities about the bureaucracy and increased costs of a more open public bidding process, the changes are broadly welcomed by the big European suppliers.

The cross-border mergers of the late 1980s have put companies such as Asea Brown Boveri and GEC Alsthom in a good position to take advantage of the changes, due in no small measure to their spread of manufacturing within the EC.

Nevertheless, the pace of change is expected to be variable, with France and Italy bringing up the rear.

"All countries are running towards the same finishing line, but some have their legs tied by national interests or political constraints," says Mr Jim Cronin, one of GEC Alsthom's managing directors.

The big problem area, however, is access to the post-1992 market for non-EC suppliers, and particularly for the two big US turbine producers, General Electric and Westinghouse.

Mr Kyle Pitsor, manager of international affairs at the US National Electrical Manufacturers' Association, says US manufacturers have been "nearly exclusively closed out of the European market due to the close relationship of utilities and national champions."

Mr Pitsor is worried that the directive formalises what had hitherto been a matter of custom and practice.

There are two specific problems – procurement entities will be able to reject a bid with less than 50 per cent European content, and can also prefer European bids so long as they are no more than 3 per cent dearer than the best bid from a third country.

The US is now working to achieve agreement with the EC on amending the offending Article 29 of the Directive, which lobbyists for the US suppliers say is a clear violation of the General Agreement on Tariffs and Trades (Gatt).

Although there are some hopes that the problem can be sorted out this year, US suppliers are determined not to "pay" for exclusion from the amendment.

There is also concern about the EC's planned "remedies directive" as applied to utilities contracts. With the cost of bidding often as much as $1m, US suppliers want to ensure they can find out why they lost out.

Clouding the issue is a disagreement over competition in the US market.

Some estimates suggest imports have accounted for just 10 per cent of US demand, but GE says penetration is much higher in some sectors, such as steam turbines, and that the market is wide open.

The EC interprets the facts differently, maintaining that the US market is closed in many respects.

Curiously, though, there are few complaints from the big European suppliers about access to the US, and Mr Pitsor points out that foreign companies have often been uninterested in bidding to supply many of the smaller US utilities.

The European issue remains the major trade controversy in the industry, when viewed from the US.

GE, at least, is much happier about its access to the Japanese market – Mr Genever-Watling points out proudly that Tokyo Electric Power is its biggest customer.

**The World Market for Heavy Electrical Equipment, by Steve Thomas and Francis McGowan. Nuclear Engineering International Special Publications, Quadrant House, Sutton, Surrey, SM2 5AS, UK. £35.*

Frank Gray examines regional requirements

Asia's sizeable target

ENERGY analysts often point out that if one were to apply western standards – that is, one kilowatt of installed capacity per head of population – the capacity of Asia's power plants would have to be boosted overnight to at least 2.5m MW (2.5bn kW, roughly equal to the current population level) from the existing mark of around 250,000MW (250m kW).

According to the World Bank, the key utilities of "developing" Asia plan to double installed capacity by the end of the century to approximately 472,000MW. While far less than what is needed, it is a sizeable target, which the Bank believes can be achieved.

According to the Bank's estimates, planned expenditures for the capacity expansion will amount to $455bn, of which $277bn will be spent on generation, $39bn on transmission, $100bn on distribution equipment, and $39bn on general support costs. It is estimated that 35 per cent of the costs will be for foreign equipment, and 65 per cent for the domestic component. This could mean $160bn in orders to foreign companies over the decade.

By the year 2000, the project mix is likely to be 258,000MW coal, 144,000MW hydroelectric, 23,000MW nuclear, 22,000MW oil and 22,000MW natural gas, with the balance from geothermal and new technologies. The big gains will be in coal, gas and hydro, each of which will more than double. Nuclear will advance by a fraction with potential activity focusing on China, Indonesia and Thailand.

Foreign aid will be the spur, coming from national agencies such as US Aid, Britain's ODA, and Japan's OECF, as well as from the World Bank and Asian Development Bank. The World Bank last year provided $1.58bn in concessional loans to Asia's energy sector. The ADB saw its energy sector lending for 1990 jump by 73 per cent to $1.05bn. On average, 20 per cent of all aid agency funds go to the power sector.

It is believed the World Bank/ADB contribution to Asia power through the 1990s could top $25bn, with a similar figure coming from the individual bilateral agencies, particularly Japan's OECF.

The UK has consistently funded major power schemes in Asia. Britain is putting the finishing touches on a record £300m project aid package to Malaysia to support a £400m hydroelectric project being undertaken by Balfour Beatty and Cementation as prime contractors, with GEC Alsthom supplying the turbines. Indeed, through GEC's partnership two years ago with Alsthom of France, Britain and France now have a formidable force in the Asian power generating market.

French aid was instrumental in helping French companies win $1.5bn in power equipment supply contracts to Asia in the 30-month period ending in July 1990. Key companies involved were the Alsthom half of the GEC partnership, Stein Industrie, Merlin Gerin, Sulzer Diesel and Spie-Batignolles.

However, it is clear that as much as two-thirds of the finance for Asian power projects will have to come from conventional finance.

This challenge alone is prompting major privatisation programmes affecting many power utilities being undertaken throughout the region. Apart from Japan, Hong Kong, Macau and just four of India's 18 regional utilities, virtually all of Asia's power utilities are state-owned. With few exceptions, they are poorly run.

An example of this is in Pakistan, where the Islamabad government and a consortium of US, UK, French, Italian and Japanese interests last month concluded a deal for the supply of a 1,292MW coal-oil fired power station to Pakistan's Water and Power Development Authority. The build-own-operate (BOO) deal, the first arranged by the World Bank, will cost $1.3bn over four years. The consortium will effectively become Pakistan's second utility, selling electricity into the national grid. Earnings from those sales will not impinge on the Pakistan exchequer.

As one official for KWU, the power generation arm of Germany's Siemens, says: "While it is never easy to do business, there are no 'bad' countries in the region; business is possible in all of them."

Siemens' successes throughout Asia include major orders from China and India. In China, it has won major turbine contracts for hydroelectric and thermal power schemes, including the giant Gezhouba Dam scheme on the upper Yangtze River. In India, it has won deals for equipment manufactured in Germany and, increasingly, Siemens hardware produced under joint venture with its Indian partner, Bharat Heavy Electricals Ltd.

Since the mid-1970s, when the BHEL tie-up was first arranged, BHEL has won 212 orders for Siemens industrial turbines. Increasingly, says the KWU official, tenders in Asian countries require a business link with a local partner.

Mr Arne Bennborn, Asea Brown Boveri's executive vice-president (Asia) says: "The developing countries of Asia will never be able to import all their requirements. Joint venturing will be very important for western companies doing business there in the future."

His view is that the rate of new capacity by most of developing Asia is proceeding at a pace similar to that experienced by Japan in the 1950s and early 1960s.

At that time, Japan relied heavily on imports of US power generating equipment from Westinghouse and General Electric, still the industry's two leaders.

Now they are able to supply their own utilities through such companies as Toshiba, Hitachi and Mitsubishi, under licensing agreements with the US majors, and have become vigorous competitors themselves.

"Korea followed Japan's example in the 1970s by buying up western technology," Mr Bennborn says. However, he foresees some problems. Pakistan, with a population of 100m, so far has no counterpart to India's BHEL. Foreign exchange difficulties are enormous throughout the region, and steps are needed to improve local capital investment in national industries. Many Asian countries have high levels of internal savings that have only to be tapped to create the liquidity needed to boost the power sector.

GE and Westinghouse remain the primary equipment licensers, as a result of various joint ventures and licensing deals. Westinghouse is in partnership with Japan's Mitsubishi Heavy Industries. According to a Westinghouse official, the company has moved into service-related activities, particularly in South Korea, Taiwan, China, Japan, Singapore and India.

GE sees Asia as representing about one-third of total world opportunity for capacity additions in the 1990s. The company has booked $1bn in orders for each of the last two years in Asia. Not surprisingly, most of these will be in Japan, Korea and Taiwan. In the mid-1980s, GE built the world's largest and cleanest combined cycle power pant for Tokyo Electric Power. The 2,000MW plant is powered by LNG.

The author is Editor of Power in Asia, a Financial Times energy newsletter.

Installed capacity/population in selected Asian countries

Country	Population (m)	Capacity (MW)
Bangladesh	107	2,027
China	1,070	110,000
Hong Kong	5.6	7,850
India	800	61,000
Indonesia	178	9,236
Malaysia	17.4	5,200
Nepal	18	270
Pakistan	100	7,500
Philippines	61.6	8,000
Singapore	2.7	3,640
South Korea	43.5	21,000
Taiwan	19.6	17,000
Thailand	55.8	7,154
Vietnam	70.4	2,200

Source: Power in Asia

Leslie Colitt on prospects in eastern Europe

Bridgeheads in place

EXPECTATIONS of dynamic markets in east Germany, eastern Europe and the Soviet Union have driven western producers to negotiate a series of joint ventures and takeovers in the region.

The major western power engineering companies have established bridgeheads of varying size in east Germany, Poland, Hungary and the Soviet Union, and are negotiating for a presence in Czechoslovakia.

Annual sales of electric power equipment in eastern Europe are expected to total more than $4.4bn by the end of this year, and could double if foreign exchange barriers can be broken down, according to a study by Frost & Sullivan. It forecasts that Czechoslovakia will record the sharpest growth, with sales of electric power generation and transmission equipment reaching $87m this year and $1.2bn by 1995. Sales in Bulgaria and Romania this year are expected to reach $40m and $99m respectively, and to increase to $860m and $450m in 1995, says the report. In Poland, the largest market, sales this year are expected to reach $1.7bn and to rise to $2.1bn in five years.

New thermal power stations are to be built in east Germany and existing, highly-noxious lignite-fuelled power stations provided with anti-pollution equipment.

Alone among east European countries, Czechoslovakia wants to expand and modernise its nuclear energy capacity with western assistance and using earnings from electricity exports to the west.

A planned high voltage trans-European electricity grid would increase the capacity utilisation of power stations and reduce pollution. The link-up is expected to begin across the Polish-east German border and is to encompass Poland, Czechoslovakia and Hungary. It will enable the eastern countries to sell electricity to western Europe and use the earnings to finance environmental and infrastructure investments.

In east Germany, Asea Brown Boveri (ABB), Europe's largest power engineering company, and Siemens have divided the market between them. The main lure is the estimated DM40bn which German electricity suppliers are expected to spend on power generating plants in east Germany by 1995.

ABB, through its German subsidiary in Mannheim, has bought three east German heavy electrical companies in the past six months from the Treuhand, the east German privatisation agency. Bergmann-Borsig, the largest producer of turbines and other power station installations, is the latest ABB acquisition in east Germany. It will play an important role in building turbines and other equipment for a thermal power station at Rostock on the Baltic coast, for which ABB won a letter of intent.

ABB plans to invest DM45m in Bergmann-Borsig over the next three years, most of it in modernising and restructuring production.

Earlier this year ABB Germany took control of Automatisierungsanlagen Cottbus, a leading east German manufacturer of power plant control technology and process automation equipment, in which it will invest DM40m. Last December, ABB bought Energiebau Dresden from the Treuhand which produces high-voltage overhead lines, switchgear and catenaries. ABB plans to invest at least DM30m in the Dresden company by 1994 and will expand the range of production. ABB expects new orders in east Germany to total DM2bn this year and says it has detected the first signs of consolidation in the market.

Its main rival, Siemens, is investing DM50m in Görlitzer Maschinenbau, a producer of industrial and heating plant turbines, which it took over last April from the Treuhand. Siemens also bought a producer of automation equipment for nuclear and thermal

Annual sales of electric power equipment could total more than $4.4bn

power stations at Teltow, outside Berlin, in which it plans to invest up to DM50m. The west German company's KWU subsidiary was recently awarded a contract to equip the 3,000MW Jänschwalde lignite power plant, east Germany's largest, with anti-pollution scrubbers.

In neighbouring Poland, ABB formed a joint venture with Zamech, the major heavy electricals producer in Elblag, in which ABB holds a majority share.

Together with its joint venture with the Dolmel company, ABB employs more than 7,500 people in Poland.

Last October, Poland's electricity suppliers selected a consortium of Westinghouse, General Electric (GE) and three Polish companies to conduct a $3m study on the potential for modernising Poland's coal-fired power stations.

In Hungary, which leads eastern Europe in joint ventures with western companies, ABB and Lang Gyepgyar of Budapest, a leading Hungarian manufacturer of small and medium-sized turbines, formed a joint venture last year in which ABB owns 75 per cent. The new company, ABB Lang, has 650 employees.

Siemens, ABB and other western companies are in advanced negotiations with the USSR on a joint venture to produce gas turbines in the Soviet Union.

GE is pursuing "with the utmost vigour" a relationship with Leningrad Metal Works, says Mr David Genever-Watling, head of its power generating equipment business.

"We believe a significant opportunity exists for manufacture of combustion turbines for application on the Russian system," he says.

ABB's German subsidiary is also setting up a joint venture in the Soviet Union in power plant control systems.

The new company, in which ABB will have a 51 per cent stake, will design, install and service control systems for the automation and monitoring of Soviet power stations.

Talks between western producers and Czechoslovakia's Skoda engineering company in Plzen have dragged on since last year without tangible results.

Skoda Plzen (no relation to the Skoda car company) is negotiating with Siemens, ABB, Westinghouse, GE and Ansaldo of Italy on a partnership with its thermal and nuclear power divisions.

F. John L. Bindon on nuclear power in Europe

Market without barriers

THE European Single Market will have a significant effect upon the future of nuclear power.

Up to now, differences in the way energy is produced and utilised have been subject to national sensitivities between member states over questions of regulation, statutory obligations, traditions, policies and taxation laws. Licensing arrangements are very much left to national governments. These differences have tended to create barriers to progress.

The single market will be an energy market without such barriers, one in which nuclear energy has the opportunity to expand in a way which will offer a more prosperous future for the European Community. At the same time, increased nuclear generation will greatly assist in combating the greenhouse effect.

EC members need to reduce their dependence on energy imports. Since the oil crisis of the 1970s, the community has made substantial progress in this direction.

Nuclear energy, despite Three Mile Island and Chernobyl, has made a substantial contribution. In 1970, nuclear energy accounted for 2 per cent of energy production in Europe; by 1987, that had increased to 14 per cent. Today, more than 35 per cent of all electricity generated within the EC comes from nuclear power, making it the biggest single source of energy for electricity production. The target for 1995 is for 40 per cent of electricity to be produced by nuclear means.

Despite arguments to the contrary, generation cost studies undertaken show that electricity can be produced more cheaply from nuclear fuel than from fossil fuels. The saving is even greater if the cost of environmental damage due to emissions to the atmosphere is taken into account.

Nuclear power presents a more complex series of operating costs than other types of power generation, the largest proportion relating to the capital cost of building. The need for improving safety standards is ever present. One of the objectives of the internal market must be to reduce such costs and increase the economic competitiveness of nuclear power. The future of nuclear power will always depend upon its safety record and any cost cutting has to be achieved within a health and safety framework.

Of the European countries with a nuclear component, only France is expanding its nuclear generation to any great degree. With a nuclear capacity of more than

The target for 1995 is for 40% of EC power to be produced by nuclear plants

51,000MW, and another 11,000MW under construction, the French see nuclear power as the key to their energy independence and economy.

Germany's nuclear component stands at nearly 40 per cent, with two stations awaiting commissioning. The question yet to be answered is just how the new Germany will administer the nuclear stations, formerly owned by East Germany, where six reactors have a capacity of 2,102MW.

An important point is the condition of the old coal-fired power stations emitting a very high level of gaseous pollutants. These stations in eastern Europe will have to be phased out within the next decade. Nuclear power, therefore, has an opportunity to be part of the replacement programme.

Czechoslovakia, Hungary and Bulgaria have large nuclear programmes – Hungary produces nearly 50 per cent of its electricity by such means. The governments of these countries are seeking to increase this percentage and this will bring opportunities for enterprising companies with the necessary expertise.

Belgium, the Netherlands and Spain have a high percentage of nuclear plant but their future development is in doubt. Italy and the other member states are unlikely to avoid some nuclear development if their future prosperity is to be advanced.

Britain, with 23 per cent nuclear generation, has one PWR station under construction. However, the outlook is bleak for the nuclear industry in the UK. The government has set a moratorium on any future expansion until after a review is undertaken in 1994. No one knows how that review will be conducted or if, indeed, it will ever be carried out.

Even those companies presently engaged on Sizewell B cannot with any degree of certainty plan for their future.

The nuclear manufacturing industry on the European mainland is in a more advantageous position than that of the UK. Companies in France and Germany such as Siemens, Asea Brown-Boveri and Framatome have a wealth of experience in the building of PWRs.

The overriding conclusion is that Britain's nuclear industry must get its act together to face the European onslaught next year.

The challenges for the future of nuclear power in the Community are many. Public acceptability, as ever, needs to be won by the industry and this can only be achieved through high performance and excellent safety standards, financial control and patience. It must demonstrate in a more positive way that nuclear power is an environmentally advantageous energy source and is safe. The control of radioactive waste must be made acceptable to the public.

Competition between differing forms of electricity supply will increase over the coming years and in this nuclear power must remain at the forefront.

The author is a UK energy consultant

Frans de Ruiter, Managing Director of UNA, extends the beauty of art to an environment of high technology.

Frans de Ruiter's turbine is a work of art.

Frans de Ruiter is the Managing Director of UNA, the Dutch electrical power utility supplying the Noord Holland – Utrecht – Amsterdam area. He has a tough assignment. UNA serves one of the most densely populated regions of the most densely populated country in the world. To help it do so, UNA has completed the installation of the two largest, most efficient gas turbines operational in the world today. Each generates 140 megawatts of electricity at efficiency levels well in excess of any comparable facility.

"We have made full use of ABB's most advanced technology to meet demanding targets," says Mr. de Ruiter. "At the same time, we have been able to satisfy Holland's strict environmental controls."

Not only are UNA's plants exceptionally "clean" – UNA has just won a prestigious international award for its environmental achievements – but the company's efforts to landscape the surroundings of its power plants have also won praise with local communities. At the Utrecht power station, Mr. de Ruiter's environmental efforts have gone one step further. He has turned the interior of the plant into a giant gallery, and one of his new turbines itself into a work of art. "Why not?" he asks. "Our employees deserve a stimulating work environment. And we are proud of having the world's most modern."

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